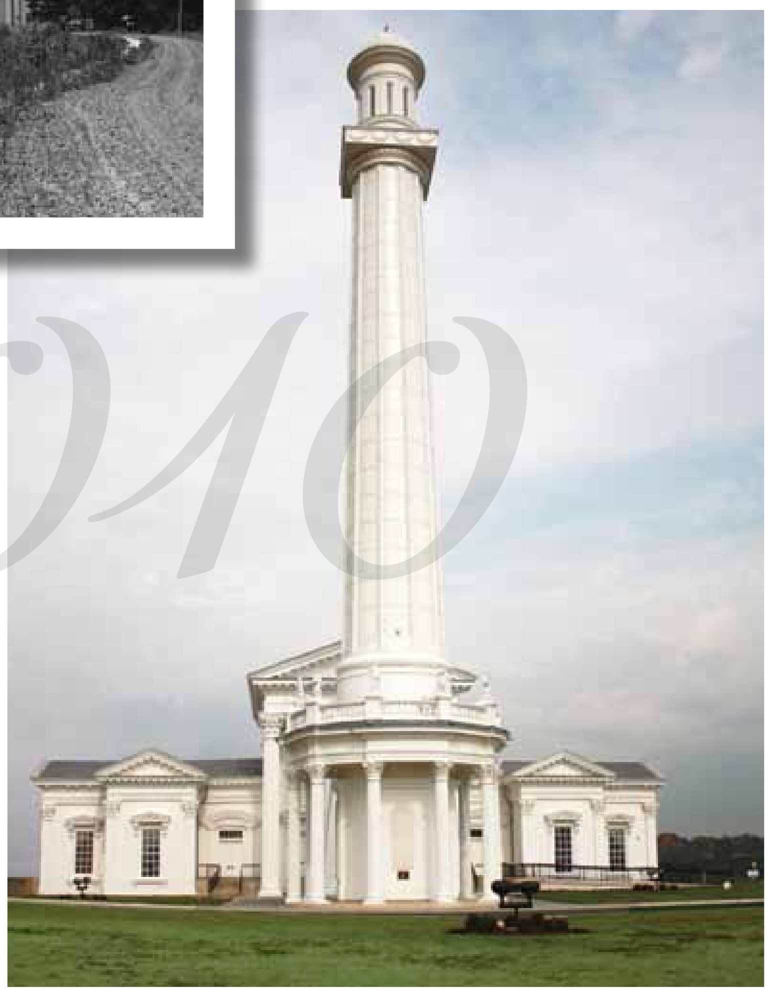
1860

2010



WATER WORKS

150 YEARS OF LOUISVILLE WATER COMPANY

LOUISVILLE WATER since 1854

2010 ANNUAL REPORT

150 YEARS OF QUALITY, INNOVATION AND VALUE

2010 marked the 150th anniversary of operations for Louisville Water Company. On October 16, 1860, the "Water Works" began as Kentucky's first public water provider, delivering drinking water to 512 customers through 26 miles of pipe. Now, 150 years later, Louisville Water has grown to include nearly 280,000 customers and over 4,100 miles of water main.

The 2010 Annual Report highlights the quality, innovation and value that have defined Louisville Water's service for 150 years.

An employee sits atop one of the original cast iron pipes, circa 1878

An employee inspects a section of the original cast iron pipe in October 2010

CONTENTS

Louisville Water provides drinking water to 850,000 people in Louisville Metro and parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. In 2010, the company delivered an average of 127 million gallons of water every day through 4,115 miles of water main. The customer base also includes wholesale contracts to Lebanon Junction, Mount Washington, North Nelson Water District, North Shelby Water Company, Taylorsville and West Shelby Water District. Louisville Water operates two treatment plants; the Crescent Hill Filtration Plant has a capacity of 180 million gallons per day and the B.E. Payne Water Treatment Plant has a capacity of 60 million gallons per day. Louisville Water draws water directly from the Ohio River and in the aquifer through a riverbank filtration system.

PRESIDENT'S MESSAGE

Greg Heitzman, President/CEO

I'm pleased to provide you with Louisville Water Company's 2010 annual report. Our company marked 150 years of operations in 2010. The "Water Works" began as Kentucky's first public water provider on October 16, 1860. In the early years, the company struggled when the Civil War erupted, crippling the economy. Ironically, on our 150th anniversary, the economy has once again impacted our business in a dramatic fashion. However, the Water Works overcame the initial struggles to quickly become a lifeline to the community, and today our company continues to provide outstanding quality and service to our customers. Our 150th anniversary was a community celebration. Numerous events throughout the year allowed customers and visitors in the region the opportunity to explore our rich history of quality, service and innovation.

A CHANGING BUSINESS CLIMATE

The national recession and changing patterns in water usage impacted our business in 2010. The National Weather Service reported 2010 as the hottest summer on record in Louisville, and the region experienced a drought from midsummer through the fall. Total yearly precipitation of 38.5-inches was 13-inches less than the five year average. Traditionally, our water sales are tied to the weather. But in 2010, even with the hot, dry weather, water sales were 7.5 percent below pre-recession levels. Much of this decline can be attributed to declining water usage. Since 1975, we've seen a 45 percent increase in the number of customers and a 67 percent increase in the miles of water main installed. Yet, our water sales are essentially flat, rising only 0.1 percent since 1975. In essence, we're delivering the same amount of water but distributing it to more customers over a larger service area.

With lagging sales and a struggling economy, we continued our budget reduction strategy in 2010 and kept operations and maintenance expenses at 2.7 percent below budget. Our employees are to be recognized for their commitment of delivering outstanding service with fewer resources. We ended 2010 with revenue of $148.2 million—$3.9 million below budget, but $12.4 million over 2009. Our prudent management of expenses and reserves allowed us to meet the expected return on investment to our stockholder, Metro Louisville, with a dividend of $18.1 million.

COMMUNITY STEWARDSHIP

Even with economic challenges, we continued our commitment to the communities we serve. Our community partnerships, including Smile Kentucky!, Tap Into Fitness and Adventures in Water, were offered at schools throughout the region. We completed our second year of funding the Customer Assistance Program to help low and fixed income families pay water and sewer bills. Our employees logged over 5,400 volunteer hours of community service and we provided nearly $500,000 of in-kind investment to the community.

A YEAR OF MILESTONES

Louisville Water is known for its innovation and science in water treatment. In 2010, we received national attention for our continued efforts. We became one of only eight water utilities in the United States to achieve the prestigious EPA Partnership for Safe Water Phase IV award for outstanding water treatment plant performance, and our management practices were recognized as some of the best in the industry by the Association of Metropolitan Water Agencies.

Louisville Water Company President/CEO Greg Heitzman, Project Manager Kay Ball and Chief Engineer Jim Brammell accept the Outstanding Civil Engineering Achievement award along with our engineering partners.

We ended the year by completing a world-class innovation, the riverbank filtration project to draw a natural supply of water deep from the Ohio River aquifer with a tunnel and well system. Then, in March 2011 the American Society of Civil Engineers honored the project with its 2011 Outstanding Civil Engineering Achievement award. This prestigious honor recognizes our work as the best in the world for a civil engineering accomplishment.

These are challenging times for our industry. We must not lose sight that we are a lifeline to this region, providing safe and high-quality drinking water. Our ongoing innovations improve not only the essential water service we provide but also the quality of life in the communities we serve.

Greg C. Heitzman
President/CEO, Louisville Water Company

Jim Brammell
Vice President, Chief Engineer

Louisville Water's engineering projects in 2010 advanced the science of drinking water, both above and below the ground.

After over 10 years of design and construction, the Riverbank Filtration project began operating in December. The $55 million investment took place largely underground, next to the B.E. Payne Treatment Plant. A mile-and-a-half long tunnel that is 150-feet deep in bedrock will collect water from four wells in the aquifer, providing a much cleaner water source. We completed the project in 2010, including a pump station that can

Constructing the riverbank filtration pumping station

pull up to 75 million gallons of water a day from the aquifer. The start-up was smooth and there were instant benefits including a constant water temperature of around 55 degrees which will result in fewer water main breaks. Main breaks increase significantly in the winter months as the water temperature dips below 40 degrees.

This project is an engineering feat. Louisville Water is the first utility in the world to combine a tunnel with wells as a source for drinking water. The American Society of Civil Engineers awarded Louisville Water with the "2011 Outstanding Civil Engineering Achievement Award." Other finalists included the new Dallas Cowboy's stadium, the Incheon Bridge Project in Korea, a reservoir project in Missouri and the Washington Dulles Airport Terminal.

ON-SITE CHLORINE GENERATION

We achieved a milestone in the summer when we began producing our own supply of disinfectant at the Crescent Hill Filtration Plant. The on-site generation facility uses water, salt and electricity to produce a dilute form of sodium hypochlorite. The facility allows us to only produce what we need each day for water treatment and eliminates the need to store two 90-ton railcars of pure chlorine. The transport and storage of chlorine represented a significant risk to the community and our employees. The $11 million project was completed in August at $1 million under budget.

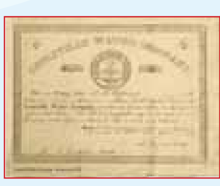
RENOVATING THE CRESCENT HILL FILTRATION PLANT

Inside the filter gallery at the Crescent Hill Filtration Plant

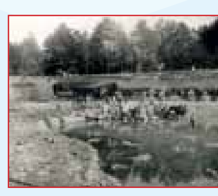
The chlorine generation facility is part of an $88 million capital upgrade at the Crescent Hill Plant that will end in 2012. The work will not only rehabilitate the 100-year-old facility, but incorporate new technology that will allow us to exceed drinking water regulations that take effect in 2012.

The ongoing work in 2010 included renovation of the softening basins and the filters in the east gallery. The filter project will result in a deeper configuration of sand and coal to increase our filtration capacity and a robust air-scour system to clean the filters. A critical element of the filter backwash component will be the construction of a new elevated storage tank. Because of the plant's neighborhood location and its historic significance, we included the Crescent Hill community in the decision making process. The new tank will include architectural

A new, elevated storage tank complements the existing historic structures



1854
Kentucky Legislature charters Louisville Water Company



1857
Work begins on the original facilities with crews clearing a forest for the original reservoir

details that complement the existing historic structures. The overall renovation of the Crescent Hill plant is being done in multiple phases since the plant must be operational throughout the renovation.

Based upon the recommendations of the new 2011-2030 Facilities Plan, we are preparing to make additional investments at Crescent Hill for advanced treatment. We have $54 million allocated between 2011 and 2015 to construct an additional treatment barrier at the plant.

MAINTAINING OUR INFRASTRUCTURE

In 2010, we implemented new technology that allows us to identify potential issues with major transmission mains before there is a failure. The work involves remote sensing technology (Remote Field Transformer Coupling) and utilizing a robot of sorts which moves through a pre-stressed concrete cylinder pipe to locate problems with the wires that give the pipe its strength. Using this technology, pipe sections can be monitored, repaired or replaced before they fail. We will invest $15 million over the next 10 years to inspect over 100 miles of pre-stressed concrete pipe.

Crews lower the "robot" into a water main

The total water main breaks for 2010 was 817, higher than the five-year average of 698. Drought conditions in the late summer and fall attributed to the increase. However, when looking at the 10-year average, we continue to see a decline in the overall main break and leak activity due to the investments we have made in rehabilitating and replacing aging infrastructure.

BULLITT COUNTY EXTENSION PROGRAM

We completed a nine-year effort in Bullitt County to improve fire protection. Since 2001, we have installed 609 fire hydrants as part of the Bullitt County Extension Program. Our staff coordinated with the local fire districts to place the hydrants and now the districts have received improved ISO (Insurance Services Office) ratings which can provide homeowners with lower insurance premiums.

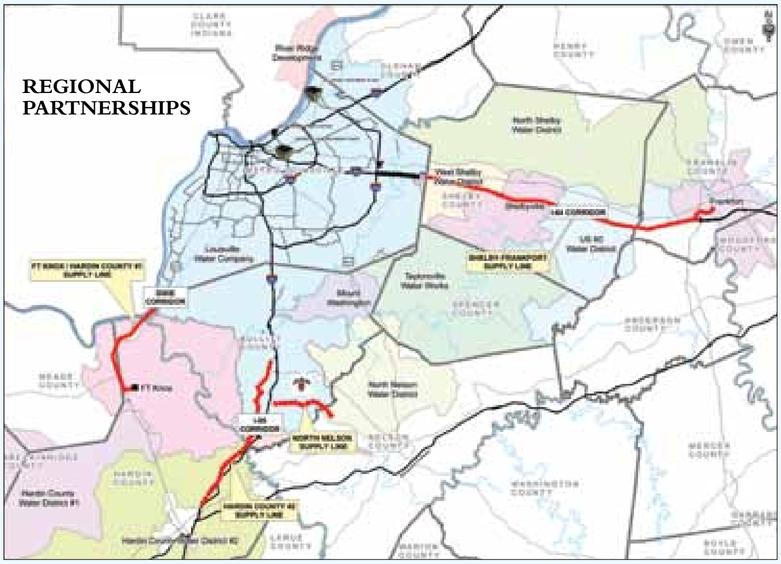
As part of the extension program, we also completed a new booster pump station and an elevated tank on Kentucky Highway 480. This will improve pressure for customers in the eastern part of Bullitt County and better serve wholesale customers. In addition, crews installed over seven miles of water main that will make water service available to residents who previously did not have access to a public water supply.

1858
Theodore Scowden designs the original pumping station and water tower

1860
Louisville Water begins operations

1861
Civil War begins

EXPANDING OUR REACH



Louisville Water continues to expand its role as a regional water provider, partnering with communities and utilities to develop water supply solutions. Work continued in 2010 on several projects that will not only improve service for our customers, but create additional water supplies for neighboring communities.

INTERSTATE 64 CORRIDOR

We will complete the first phase of a 37-mile transmission line along Interstate 64 from Louisville to Frankfort by the summer of 2011. During 2010, we installed 5.4 miles of 36-inch steel transmission pipeline along Interstate 64 from the Gene Snyder Freeway to the Jefferson/ Shelby County line, constructed a two-million gallon elevated storage tank and began work on a booster pump station. This $20.5 million project will provide an additional water supply and improved pressure to eastern Jefferson County. Louisville Water received $4.2 million for this project from the U.S. Government's American Recovery and Reinvestment Act. State leaders and the EPA highlighted our work as a success story in using stimulus funding to create jobs and infrastructure improvements. The second phase of the project, currently under design, will provide up to 10 million gallons of water a day to Shelby County and Frankfort.

The bowl of an elevated tank is lifted in place.

INTERSTATE 65 SOUTH CORRIDOR

Louisville Water continues to partner with Hardin County utilities in developing regional water supply solutions for Fort Knox and the Hardin County region. Hardin County Water District 1 will partner to build a 24-inch pipeline from Muldraugh to connect to our system at Katherine Station Road. The district needs the additional water supply for reliability and to support growth. The project will also allow Fort Knox to retire the aging Muldraugh Water Treatment Plant. The state of Kentucky's funding package to improve the infrastructure serving the Fort Knox area includes $4.5 million in grants for this project.

Hardin County Water District No. 2 will also receive $6.0 million from that funding package to construct a 24-inch pipeline just north of Elizabethtown to our system in Lebanon Junction. This critical wholesale connection will give District No. 2 a back up supply for its existing treatment plant and allow for future growth.

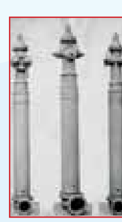
In Bullitt County, the Jim Beam Clermont Plant has converted all of its daily water usage to Louisville Water supplies from a 16-inch water main we completed from Chapeeze Lane to Kentucky Highway 245.

We are extending that water main from Kentucky Highway 245 to connect to the North Nelson Water District along with constructing a booster pump station. This new wholesale supply will allow North Nelson to purchase most of its water from Louisville Water.

SOUTHERN INDIANA

Louisville Water is partnering with River Ridge Development Authority and Watson Water Company to operate the water system at the River Ridge Commerce Center, formerly known as the Indiana Army Ammunition Plant. The Indiana Department of Natural Resources selected the partnership's proposal and we are in the final stages of negotiations. The proposal calls for River Ridge to be the lead partner with Watson Water for operating the distribution system and Louisville Water managing treatment and water quality operations.

1861
Charles Hermany becomes chief engineer, a job he holds until his death in 1908



1864
First fire hydrants installed

VALUE IN EVERYTHING WE DO

Louisville Water enjoys great customer satisfaction. Monthly surveys show an overwhelming majority are extremely satisfied. In 2010, we implemented several initiatives to enhance the value of our product.

CUSTOMER ASSISTANCE PROGRAM

Over the past two years, the percentage of bad debt, water revenue that is not collected, has steadily grown. A new program will help customers who have difficulty paying their water and sewer bill.

In partnership with the Metropolitan Sewer District (MSD), we began a Customer Assistance Program that included $71,000. We funded our portion, $34,000, with 10% of the 2009 revenues from our water-line protection program. MSD provided $25,000 and Home Serve USA, the company that offers the water-line protection, contributed $12,000.

A counselor for Ministries United of South Central Louisville works with a client

Three organizations work with us and administer the funds: Area Community Ministries in Jefferson County, Shepherd's Center in Bullitt County and the Oldham County Chapter of the American Red Cross. The agencies screen and qualify applicants for assistance, then communicate and transmit the pledge funds.

While the program began as a pilot in 2010, we quickly realized the positive impact for hundreds of customers. "The Customer Assistance Program has been the safety net for families," said Anne Smith, Executive Director of Ministries United of South Central Louisville.

NEW LINES OF BUSINESS

The water line protection program evolved from an internal "Strategy Innovation Team" in 2005 that identified new lines of business that built upon our existing assets and competencies. The program has grown each year and in 2010 we began offering a similar private sewer-line program. To date, over 70,000 customers have enrolled in the water-line program and 14,000 in the sewer-line program. Offered by a third party vendor, this voluntary program allows residential customers to pay a monthly fee to cover repairs on their home water or sewer line. Louisville Water retains 10% of customer payments, totaling $524,000 in 2010.

PAYMENT ENHANCEMENTS

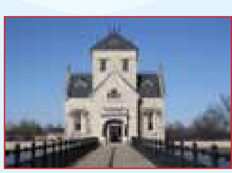
We expanded online payment options with a free, electronic check. Customers can register to create an online account and payments post within five business days. Today, just a narrow majority of our customers, 49%, mail their payment. Customers using online payment methods now account for 43% of our transactions.

ON-THE-JOB TRAINING

We continued a strong safety record in 2010 with a focus on training and employee engagement. We saw a 33% drop in OSHA recordable injuries as compared to a rolling average of the last five years. In addition, there was a 14% drop in motor vehicle accidents as compared to the five year average.

We launched an internal training program that allowed employees to immerse themselves in other aspects of the company and learn how it relates to their job. During "H2O Tuesdays," employees read water meters, sampled the technology that locates water mains and valves and understood Louisville Water's connection to fire protection. The training, delivered by Louisville Water employees to their peers, created a sense of pride across the company.

Employees learn how fire hydrants operate in H2O Tuesdays



1879
Crescent Hill Reservoir opens

1879
Thomas Edison invents incandescent light

1890
Tornado snaps the Water Tower at the base

QUALITY WATER....QUALITY OF LIFE

When Louisville Water began operations in 1860, the city's quality of life quickly improved. Now, 150 years later, we continue to enhance the neighborhoods we serve and work to bring safe drinking water to others around the world.

In 2010, our employees donated over 5,400 volunteer hours to local and national organizations. In addition, employees raised a record amount, $166,000 for three charities: Metro United Way, Fund for the Arts and Water For People.

A water purification system in Haiti

EDGE OUTREACH

After a devastating earthquake struck Haiti in January, our company reacted quickly to provide assistance to EDGE OUTREACH, a Louisville-based organization that works to provide safe drinking water in Haiti and other developing countries. Louisville Water donated $10,000 for water and purification systems and employees raised another $5,200. We continued by collecting over 1,200 pairs of shoes that EDGE will use to generate additional funds for water systems.

LOUISVILLE PURE TAP®

Over 200 organizations depend on Louisville Water to provide Pure Tap® for walks and runs, school events and festivals. We helped Field Elementary, a neighbor to the Crescent Hill Filtration Plant, launch a walk-a-thon to raise money for the school. In 2010, we also provided assistance during emergency operations for the American Red Cross. We sent hundreds of cases of Pure Tap® to eastern Kentucky after flood waters damaged the water treatment system.

Tapper, Louisville Water's mascot, leads a walk-a-thon

1893
Pumping Station No. 2 opens

1896
George Warren Fuller oversees landmark experiments in filtration

1906
Board of Water Works created

4-H students at the Adventures in Water festival

ADVENTURES IN WATER

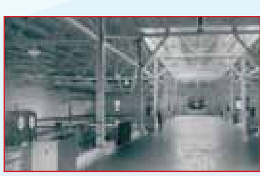
Over 60,000 children in 10 counties participated in our "Adventures in Water" education program that includes school-based programming and tours. Now in its eighth year, this program continues to grow with over 100 schools engaged and through partnerships with the Louisville Zoo, Jefferson County 4-H, Louisville Science Center and the Frazier International History Museum. In 2010, we expanded our work with the local 4-H District by delivering monthly science and social studies programs at eight schools. 4-H agents praise the program for helping students see "the big picture in what it takes to make a city run."

With the help of a donation from CH2M Hill, an engineering partner, we donated over 100 books to Minors Lane Elementary and began an effort to donate water-related books to many of the schools we visit.

Students tour the inside of the historic Water Tower.

SMILE KENTUCKY!

Our community dental partnership, Smile Kentucky! provided free treatment to 300 children. This program worked with 30 schools providing dental education, free dental screenings and treatment. The Kentucky Dental Association featured the program's success as part of its 100th anniversary in 2010.



1909
Crescent Hill Filtration Plant opens

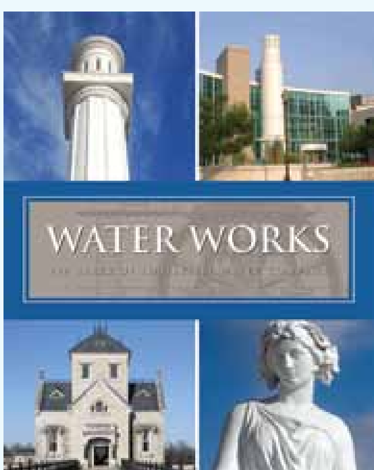
1910
Company moves its offices to a fireproof building at 435 S Third Street

LOUISVILLE'S WATER WORKS 1860 – 2010

Since the history of Louisville Water mirrors a significant part of Louisville's history, the 150th anniversary was a year-long community celebration. Exhibits, public events, art displays and a new book showcased how water "works" in so many ways.

A section of the original 1860 cast-iron pipe is still in service along Story Avenue. Crews removed a small area for research and archival purposes. The Ductile Iron Pipe Research Association presented Louisville Water with a "sesqui-centennial" award for having an original piece of water main operational for 150 years.

The celebration began in March when the Kentucky Historical Society named the Crescent Hill Gatehouse and Reservoir and the Crescent Hill Filtration Plant state historic marker sites.

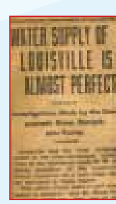


A new book, *Water Works, 150 Years of Louisville Water Company,* written by Kelley Dearing Smith explores the colorful history of the company through photographs and stories from our archives. Proceeds benefit science and public health initiatives in this community and worldwide.

Two former Louisville Water Company presidents, John L. Huber (left) and Foster Burba (right) stand alongside current president and CEO Greg Heitzman. The piece of the original main is in the foreground.

1911
Initial Cornish-beam engines dismantled

1914
World War I begins



1917
U.S. Government calls Louisville's water "almost perfect" and locates Camp Taylor in Louisville

150TH ANNIVERSARY DAY

More than 1,200 employees, retirees and Louisville residents attended a celebratory open house on October 16 at the historic Louisville Water Tower and Pumping Station. Much like the opening in 1860, the day was a community picnic with horse-drawn carriage rides and tours of the Water Works. Visitors stepped inside the current pumping stations to see one of the steam engines installed in the early 1900s. The engine is no longer operational, but is intact with the fly-wheels and circular staircase that allowed employees to access the top of the engine. A "mud pump" that was discovered in a boiler house was restored and on display along with a collection of archival photographs.

"Reflections on a Louisville Landmark," a juried art exhibit at the Louisville Water Tower featured interpretations of the historic landmark.

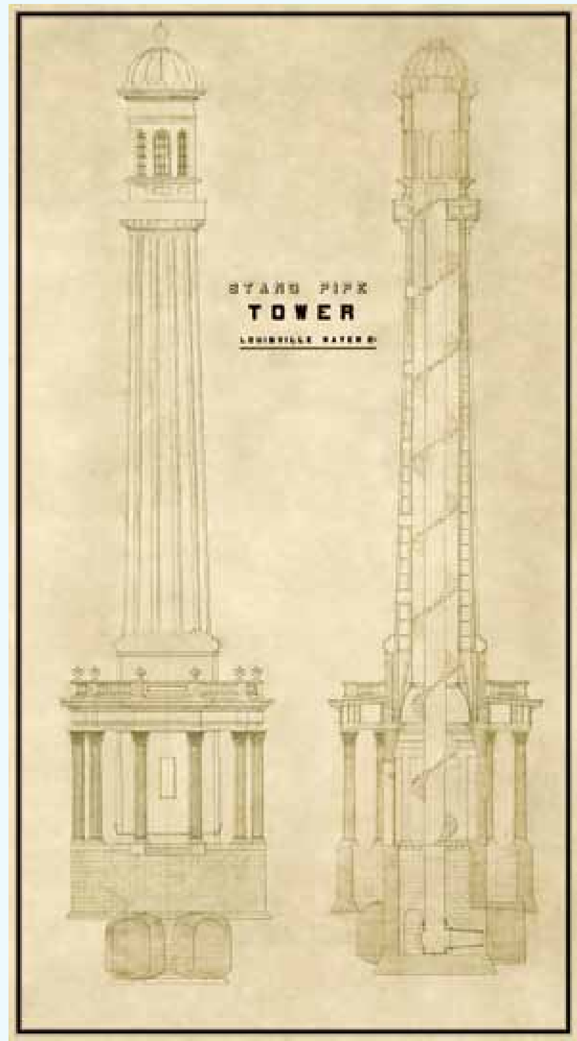
1919
Company opens the Crescent Hill swimming pool

1920
Pumping Station No. 3 opens

1920
19th Amendment gives women the right to vote

LOUISVILLE'S WATER WORKS
1860 – 2010

As part of the 150th anniversary, we restored Theodore Scowden's original drawing of the Water Tower. An employee discovered the drawing tucked in a storage drawer in the company's offices in the 1990s. As part of the preservation, the drawing was stabilized, repaired and encapsulated. In addition, a digital restoration of the image created how the drawing would have originally looked around 1858. Scowden's original drawing included decorative urns on the pedestals above each column. Instead, statues were added in 1861.



1990

1950

1920

1860

In 2010, we updated our corporate logo to capture the spirit of quality and innovation and more clearly display our name.

The company's original mark in 1860 was a fountain. It evolved over the years to include an overlay of "LWCo" and then included the water tower by the 1940s.

LOUISVILLE
WATER
since 1854

2010

1928
Modern-day television set invented

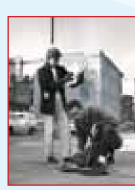
1928
First electric pump at River Road pumping stations

1932
Cardinal Hill Reservoir opens to serve the southern part of the service area

WATER WORKS EXHIBIT

Enjoy a tall glass of H2Know! In partnership with the Frazier International History Museum, we produced a temporary exhibit to highlight our history of quality and innovation. "Water Works" showcased memorabilia, photographs and film from our archives and a model of the historic water tower. Thousands of visitors learned how Louisville Water has impacted the quality of life in this community and worldwide.

1937
Ohio River floods the pumping station. Engineer B.E. Payne devises a plan to dock a barge filled with coal next to the station to power the steam engines. The city continued to get water during the Great Flood.



1941
All services are metered

1941
Pearl Harbor attack

RESTORING A NATIONAL HISTORIC LANDMARK

It has stood on the banks of the Ohio River for over 150 years, serving as a visual landmark for the city and Louisville Water. In 2010, a $2.6 million restoration of the original pumping station brought the National Historic Landmark to closely resemble its appearance in 1860.

The restoration involved a range of activity from installing a new slate roof, removing layers of exterior paint and then repainting the building white to reflect the Classical Revival Style. Some of the more meticulous work included restoring and cleaning the building's original elements such as the masonry façade, wood soffits and terra cotta decorations. There are 480 hand-crafted modillions on the Pumping Station, most made of terra cotta, which were cleaned, repaired and in some cases recast.

Photos courtesy of HGC Construction

1942
Annual dividend to the city surpasses $1 million

1946
Employees organize the "Water Workers" union as part of United Public Workers

1951
Remaining steam pumps converted to electricity. Fluoride added to the drinking water

The project required immense coordination. Work began on the front of the building in the spring of 2010 and was nearly complete by October, in time for the 150th anniversary day event. Because of the Pumping Station's historic status, the project qualified for a tax credit under the Kentucky Heritage Council that totaled \$214,390. A unique part of the restoration includes constructing a riverside terrace on the north side of the building. When complete in 2011, this new feature will complement the existing architecture and provide a shoreline-view of the Ohio River.

1951
General Electric announces it will locate Appliance Park in Louisville

1960
Company marks its 100th anniversary with a piece of the original cast-iron water main on display at the Water Tower

1963
John F. Kennedy assassinated

ACHIEVEMENT AWARDS

- **American Public Works Association Roadeo, 1st place**
  Phil Henry, Shawn Shaw, Raymond White

- **American Society of Civil Engineers, Outstanding Civil Engineering Achievement Award**
  Louisville Water's Riverbank Filtration Tunnel and Pump Station were recognized as the best example of a civil engineering project.
- **Association of Metropolitan Water Agencies Gold Management Award**
  Louisville Water was one of 13 drinking water utilities honored. The award recognizes the company's forward-thinking management style, financial operations, high-quality and affordable drinking water and its responsive customer service.
- **Beautification League of Louisville and Jefferson County**
  Outstanding Landscape and Maintenance, 2nd place
- **Kentucky Ready Mix Concrete Association Outstanding Concrete Design Award for the Riverbank Filtration Project**

Vince Guenthner (right) accepts an award from Kentucky Rural Water Association

- **Kentucky Rural Water Association Award for Outstanding Customer and Public Relations Efforts**
- **Kentucky/Tennessee American Water Works Association, 1st place, "Best Tasting Tap Water"**
- **Kentucky Water and Wastewater Operators Association, Eugene Nichols Award**
  Ruth Lancaster

- **Partnership for Safe Drinking Water, Phase IV Excellence in Water Treatment Award for the B.E. Payne Treatment Plant**
  Signifying the best plant performance, the Phase IV award is the highest level in the Partnership program. Louisville Water's B.E. Payne Treatment Plant is one of only eight treatment plants in the country to achieve this status.

- **Ductile Iron Pipe Research Association, Sesqui-centennial Award**
  Louisville Water received this award on its 150th anniversary for having a water main in continuous service for 150 years. A small section of the pipe was removed for research and archival purposes and was on display at the historic Water Tower. President & CEO Greg Heitzman and Chief Engineer Jim Brammell accept the award from representatives of the Research Association.
- **Tri-State Minority Supplier Development Council "The Agave Keystone Award" for significant achievement in minority business spending**

1964
Company begins to expand outside the city limits

1967
Allmond Avenue Distribution Facility opens

1969
Neil Armstrong steps onto the moon

BOARDS/COMMISSIONS

- **American Red Cross, Louisville Chapter Board of Directors**
  Dave Vogel
- **American Society of Civil Engineers, Kentucky Chapter Board of Governors**
  Daniel Tegene
- **American Society of Civil Engineers, Louisville Chapter**
  Denise Hettinger, Vice-president
- **American Society of Heating, Refrigerating, and Air Conditioning Engineers, Louisville Chapter**
  Julian Donahue, Vice-president and Secretary
- **American Society of Mechanical Engineers, Louisville Chapter**
  Ralph McCord, Vice-chair
- **American Water Works Association (AWWA) National Cross-Connection Control Committee**
  John Ralston, Chair
- **AWWA National Finance and Accounting Management Controls Committee**
  Amber Halloran, Chair
- **AFSCME Council 62 Regional Executive Board**
  Billy Meeks
- **Better Business Bureau Board of Directors**
  Greg Heitzman
- **Boy Scouts of American, Lincoln Heritage Council Board of Directors**
  Greg Heitzman
- **Center for Women and Families Board of Directors**
  Barbara Dickens
- **Court Appointed Special Advocates for Children (CASA) Board of Directors**
  Dave Vogel
- **EDGE OUTREACH Advisory Board**
  Greg Heitzman
- **Fund for the Arts Board of Directors**
  Greg Heitzman
- **Institute of Internal Auditors, Louisville Chapter Board of Governors**
  Roger LeMaster
- **Jefferson County Cooperative Extension Service Council**
  Marsha Meyer, President
- **Geospatial Information & Technology Association Indiana/Kentucky/Ohio Board**
  James Bates
- **Greater Louisville Inc. Board of Directors**
  Greg Heitzman
- **Kentucky 811 and Underground Safety Alliance**
  Kate Farrow, Vice-chair
- **Kentucky Chapter of Hazardous Materials Managers Board of Directors**
  Ralph McCord
- **Kentucky Derby Festival Board of Directors**
  Jim Brammell
- **Kentucky Industry Liaison Group Board**
  Kathy Schroeder
- **Kentucky Infrastructure Authority Board of Directors**
  Greg Heitzman
- **Kentucky Labor Relations Board of Directors**
  Billy Meeks
- **KIPDA Water Management Council**
  Jim Brammell, Vice-chair
- **Kentucky/Tennessee Section of AWWA**
  Kay Ball, Chair
- **Kentucky Water/Wastewater Agency Response Network**
  Glen Mudd, Vice-chair
- **Leadership Kentucky Foundation Board of Directors**
  Barbara Dickens
- **Lincoln Foundation Board of Trustees**
  Ed Chestnut
- **Louisville/Jefferson County Information Consortium (LOJIC) Policy Board**
  Greg Heitzman and Jim Brammell
- **Louisville Sports Commission Board of Directors**
  Amber Halloran
- **Metro United Way Board of Directors**
  Billy Meeks
- **Ohio River Valley Water Sanitation Commission, Water Users Advisory Committee**
  Jack Wang
- **Salvation Army, Louisville Area Command Advisory Board**
  Kim Reed
- **Spot Fund, Inc. Board**
  Jim Brammell and Amber Halloran
- **UofL Center for Infrastructure Research Advisory Board**
  Jim Brammell and Jim Smith
- **UofL School of Public Health and Information Sciences Advisory Board**
  Jim Brammell
- **Water Research Foundation Board of Trustees**
  Greg Heitzman

1970
Environmental Protection Agency created

1971
Water Tower and original Pumping Station are named National Historic Landmarks

1974
Tornado knocks out power to the Crescent Hill facilities and throws cars into the reservoir

FINANCIAL PERFORMANCE – OPERATIONS

Amber Halloran
Vice President, Finance and Treasurer

2010 continued to be a challenging year, yet Louisville Water effectively managed to increase operating revenue while reducing our expenses. The slow economic recovery coupled with the continuation across the United States of declining water consumption produced water sales lower than 2010 budgeted levels. Residential, commercial and wholesale sales were substantially under budget. However, when compared to 2009, Louisville Water had an outstanding fiscal performance. Although still below budget, water sales and net income increased significantly over 2009. Operating revenues were up $12,394,556 or 9.1%. Water sales increased in 2010 due to increased sales in the dry summer and fall and a water rate increase of 4.5%, effective January 1, 2010.

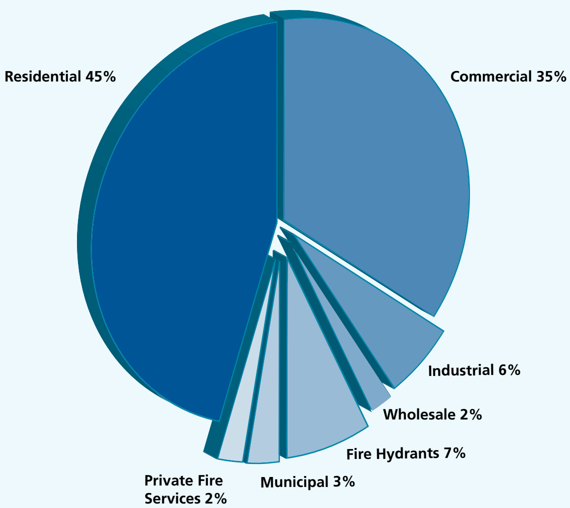
Louisville Water continued a focused, company-wide commitment to expense reduction by only spending what was required to operate the utility while continuing to provide a safe, reliable water supply to our customers and fulfilling our obligations to our bondholders and shareholder, Louisville Metro Government. This effort was successful in reducing our operating expenses by 2% under the 2010 budget. Net income increased $4,092,406 or 10.9% over 2009, providing a 9.67% return on equity to our shareholder.

SALE OF WATER REVENUE ANALYSIS

Louisville Water Company

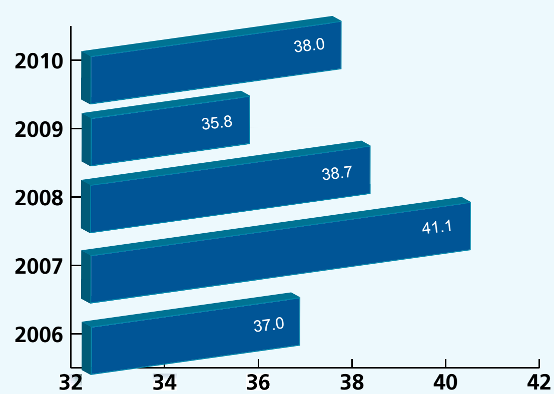
	Number of Customers at December 31		Consumption - YTD (1,000 gallons)		Revenue - YTD (In 000's)	
	2010	2009	2010	2009	2010	2009
Residential	248,451	247,192	16,067,929	14,973,777	$ 63,957	$ 57,802
Commercial	24,711	24,196	15,084,249	14,560,094	48,826	44,855
Industrial	310	308	3,587,835	3,225,276	8,532	7,502
Fire Services & Fire Hydrants	5,020	4,908	32,601	34,671	2,673	2,541
Public Fire Hydrants	21,480	21,323	–	–	9,348	8,874
Municipal	649	635	1,404,163	1,272,653	3,838	3,387
Wholesale	6	6	1,820,246	1,730,044	3,146	2,991
Grand Totals	300,627	298,568	37,997,023	35,796,515	$140,320	$127,952

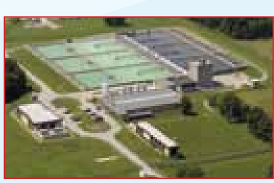
2010 WATER REVENUE



TOTAL CONSUMPTION

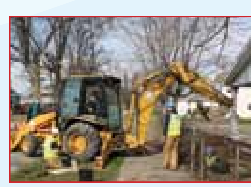
(in billion gallons)





1977
B.E. Payne Treatment Plant opens

1977
Chicago begins testing the first public use of cell phones



1985
Company develops a plan to renew its infrastructure, now considered a national model

OPERATIONS
(amount in millions of gallons)

	2006	2007	2008	2009	2010
Water Delivered to Mains (Net System Delivery)	44,590	48,817	47,460	44,476	46,234
Average Daily Pumpage	124	136	132	124	128
Maximum Daily Pumpage	173	197	180	157	173
Percent of Water Metered	85%	85%	83%	82%	83%
Average Residential Monthly Water Bill*	$17.25	$18.40	$19.78	$20.87	$21.80

** Based upon median usage of 6,000 gallons per month*

HISTORICAL REVIEW *(In 000's)*

	2006	2007	2008	2009	2010
Operating Revenues	$ 114,092	$ 132,056	$ 136,743	$ 135,833	$ 148,228
Total Operating Expenses	80,029	89,151	93,463	94,050	99,475
Net Non-Operating Income (Expenses)	(3,373)	(2,278)	(4,037)	(4,367)	(7,245)
Net Income Before Distributions, Contributions and Extraordinary Items	30,690	40,626	39,242	37,416	41,508

DIVIDENDS DECLARED *(in millions)*

WATER AND FIRE SERVICE PROVIDED IN LIEU OF TAXES
(in millions)

In 2010, Louisville Water declared a dividend of $18 million for our shareholder, Louisville Metro, representing a 9.67% return on equity. In addition, our shareholder receives the benefit of free water for fire protection with public fire hydrants and water for city operations.

AVERAGE RESIDENTIAL MONTHLY WATER BILL

Louisville Water continues to offer customers a good value with some of the lowest water rates in the region. An average residential monthly bill for 6,000 gallons is $21.80.

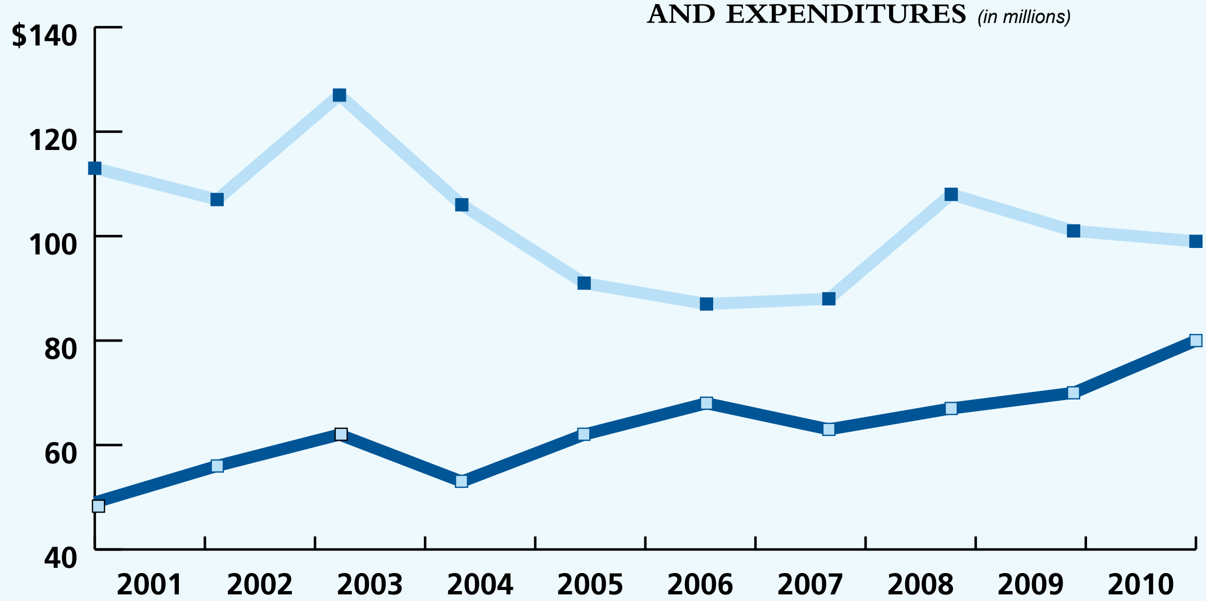
1991
Gulf War

1997
Pure Tap® program begins to promote the reliability, safety and value of tap water

1997
Spacecraft lands on Mars

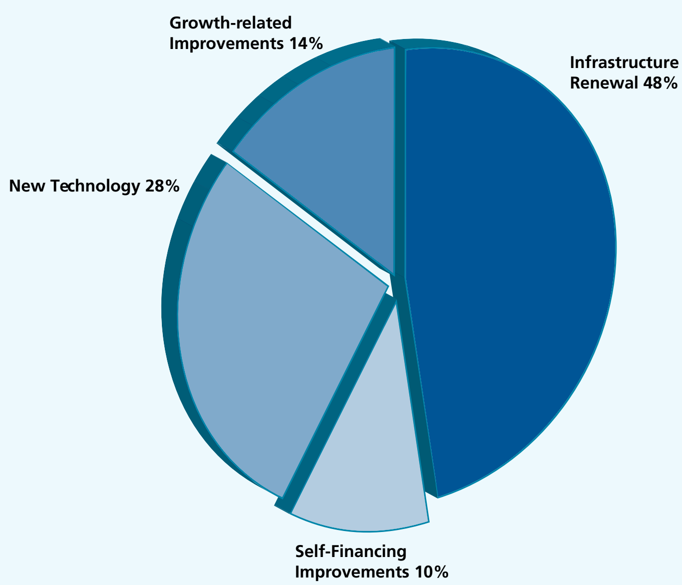
TOTAL CAPITAL PROGRAM AND EXPENDITURES *(in millions)*

Louisville Water had a record year in completing capital projects, expending $78.3 million. The comparison of expenditures to the capital program reflect that the program is managed with effective internal controls.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Capital Programs	$113.2	$107.2	$127.2	$106.0	$91.1	$86.5	$87.9	$108.4	$101.3	$99.1
Expenditures	$48.5	$56.4	$62.4	$52.5	$61.6	$67.5	$62.6	$67.3	$69.5	$78.3

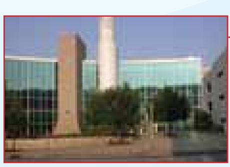
2011–2020 CAPITAL IMPROVEMENT PROGRAM



2011–2030 FACILITY PLAN

A collaborative effort among employees and CDM Engineers produced an updated facility plan in December. The plan provides concise discussions about current conditions and business drivers, opportunities for business enhancement, operational considerations and real estate holdings. The plan recommends specific improvements and includes a 20-year capital plan. Part of the plan also includes financial considerations to ensure funding for the capital program.

While the total 20-year plan is over $1.2 billion, Louisville Water has budgeted over $640 million during the next ten years for capital improvements with the largest component assigned to infrastructural renewal. The investment in new technology includes an initiative to replace our customer service and billing system and to expand our automated meter reading program.

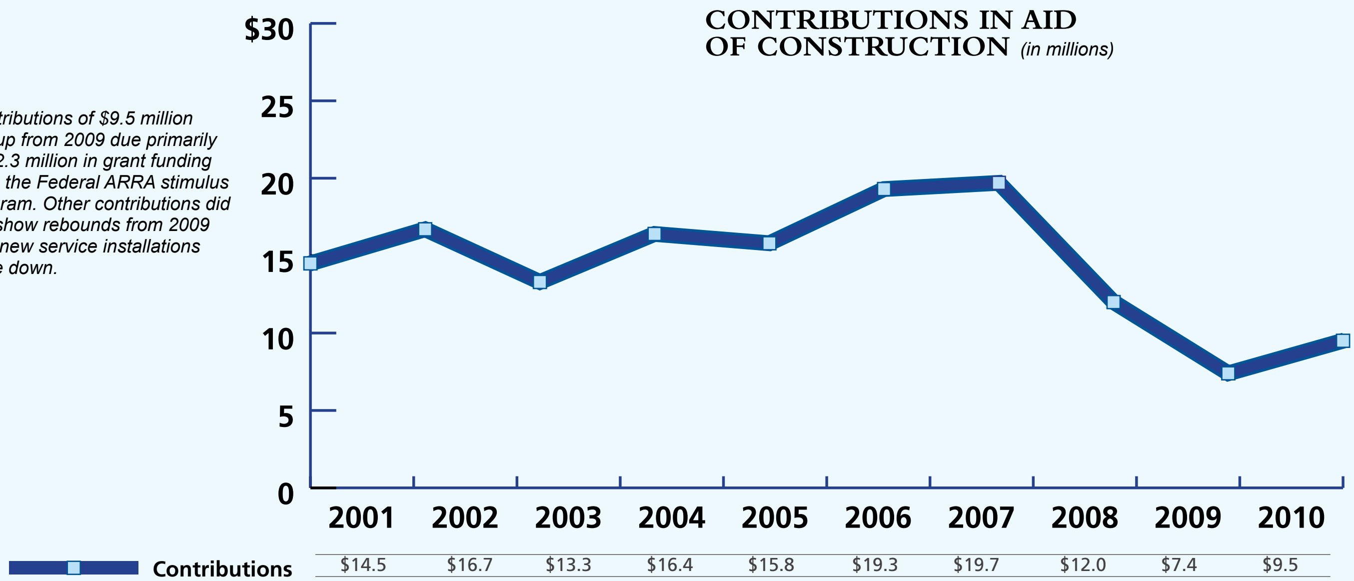


1998
Company moves to its current headquarters at 550 S Third Street

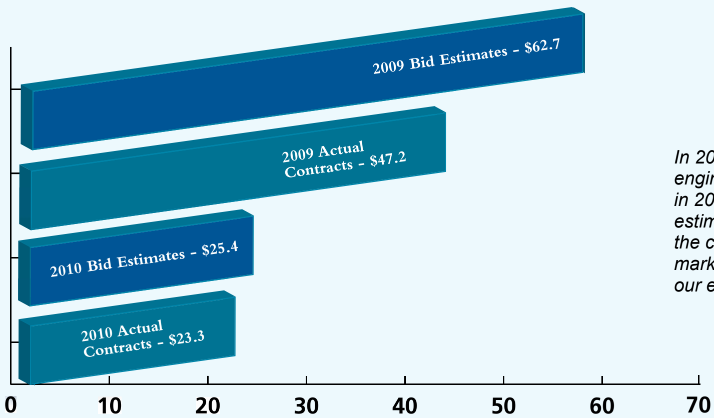
2001
9/11 Terror Attack

2002
Adventures in Water education program begins in local schools

2007
Corporate office renamed the John L. Huber building



Contributions of $9.5 million are up from 2009 due primarily to $2.3 million in grant funding from the Federal ARRA stimulus program. Other contributions did not show rebounds from 2009 and new service installations were down.



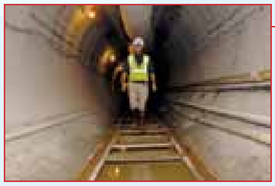
CAPITAL BIDS *(in millions)*
Estimates versus Actual Contracts

In 2009, capital bids were 24.7% lower than engineering estimates. The margin tightened in 2010 with bids coming in at only 8.3% below estimates. This is likely due to a combination of the construction market rebounding slightly and market adjustment in the estimates prepared by our engineers.

A large part of the capital program goes towards infrastructure renewal. In 2010, we invested $5.0 million to replace 7.5 miles of cast iron main and rehabilitate 9.4 miles of unwrapped ductile iron pipe. This work will extend the service life of the pipe another 65 years. We also replaced over 1,000 lead service lines as part of an on-going renewal program. Our goal is to eliminate all lead service lines by 2015.

2008
Louisville Water named "best tasting tap water in America" by the American Water Works Association

2009
Louisville Water receives AAA rating from Standard and Poor's



2010
Riverbank filtration goes on-line as the first project in the world to combine a tunnel with wells as a source for drinking water

BOARD OF WATER WORKS
(as of December 31, 2010)

The Board of Water Works is composed of seven members:

- The Louisville Metro Mayor appoints all members.
- The membership is bi-partisan, with no more than 50 percent from the same political party.
- All new board members serve staggered four-year terms.
- The Louisville Metro Mayor serves as ex officio.

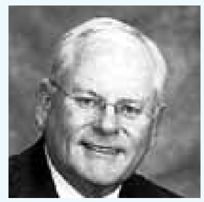
The Board meets the second Tuesday of each month at 12:30 p.m. at 550 South Third Street. Each April, the Board appoints officers of the company.


Jerry Abramson
Mayor, Louisville Metro
(ex officio)


Gerald Martin
Chair, Board of Water Works
Vice President and
Managing Member
River Hill Capital, LLC


Marita Willis
Vice Chair, Board of Water Works
Assistant Vice President
PNC Bank


Ed Crooks
Assistant Business Manager
Plumbers and Pipefitters
Local Union 502


Creighton Mershon
Retired General Counsel
AT&T (formerly Bell South)


Tandy Patrick
Lawyer
Greenebaum Doll and
McDonald PLLC


Glenn D. Sullivan
President, The Sullivan
University System, Inc.

EXECUTIVE LEADERSHIP TEAM

Left to right

Barbara Dickens - Vice President, General Counsel and Secretary

Billy Meeks – President, AFSCME Local 1683

Jim Brammell – Vice President, Operations and Chief Engineer

Ed Chestnut – Vice President, Administration

Greg Heitzman – President/CEO

Dave Vogel – Vice President, Customer Service and Distribution Operations

Amber Halloran – Vice President, Finance - Treasurer

Louisville Metro Mayor Jerry Abramson ended 21 years of service with the Board of Water Works in December. Abramson was an ex officio member of the Board during his term as Mayor of Louisville (1986-1999) and as Mayor of the merged city and county government (2003-2011). We acknowledge his enthusiastic commitment to Louisville Water and the vision he provided.

Board Chair Gerald Martin and President and CEO Greg Heitzman present Mayor Abramson with a copy of the original drawing of the Louisville Water Tower.

REPORT OF INDEPENDENT AUDITORS

Board of Water Works
Louisville Water Company
Louisville, Kentucky

We have audited the accompanying statement of net assets of Louisville Water Company (the "Company") as of December 31, 2010, and related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Louisville Water Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2009 were audited by other auditors whose report, dated March 25, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Water Company as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 22 through 27 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2010 financial statements that collectively comprise Louisville Water Company's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 2010 supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic 2010 financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic 2010 financial statements taken as a whole. The 2009 supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic 2009 financial statements. Such information was subjected to the auditing procedures applied by other auditors whose report, dated March 25, 2010, expressed an opinion that such information was fairly stated in all material respects in relation to the basic 2009 financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 22, 2011

The following discussion and analysis of Louisville Water Company's (the "Company" or "Louisville Water") financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2010 as compared with the prior year. Please read it in conjunction with the President's Message and the Treasurer's Letter at the front of this report and the Company's financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements. The statements are followed by a section of Supplemental Information that further explains and supports the information in the Financial Statements. The Financial Statements of the Company report information about the Company using accounting methods similar to those used by private sector water utility companies, except for the reporting of contributions in aid of construction, equity capital and retained earnings. For financial reporting purposes, the Company is considered a Special-purpose Government Engaged Only in Business-type Activities. These statements offer short and long term financial information about its activities.

The Statement of Net Assets includes all of the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). It also provides the basis for evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Company's operations in meeting financial objectives over the past year and can be used to determine whether the Company has successfully recovered all of its costs through its water rates and other charges, has earned a profit, and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Company's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides information on the sources and uses of cash and the changes in cash balances during the year.

SUMMARY OF 2010 PERFORMANCE

Louisville Water experienced a challenging revenue year in 2010. Although Louisville experienced the hottest summer on record with drought conditions from midsummer through fall, water sales did not peak as is the usual pattern with a hot, dry summer. These changes in consumption patterns are an industry wide experience and are related to the economy, low flow plumbing fixtures, and a general conservation of resources. An unfavorable budget variance in water revenue required a focused effort to reduce operating expenses while maintaining a safe, reliable water supply and meeting our obligations to bondholders and our owner, Louisville Metro Government. Overall, while managing through the recession and lower consumption patterns, total year end net income resulted in an under budget variance of $1.57 million or -3.6%. Net income did exceed 2009 results by $4.1 million or 10.9%. Through these challenging economic times, Louisville Water continues to provide reasonable water rates to our customers and provide a competitive return to our owner, Louisville Metro Government. In December 2009, Standard and Poor's upgraded Louisville Water to AAA rating. Moody's recalibrated our rating to Aaa in May of 2010.

FINANCIAL HIGHLIGHTS

- Total Net Assets increased by $33,002,138 or 4.4%, primarily due to increases in Utility Plant due to investment in the water system.
- Operating Revenues increased by $12,394,556 or 9.1%, due an increase of 4.5% in water rates, effective January 1, 2010 and increased sales over 2009 due to the dry, hot weather in 2010. Water sales in 2010 of 38.0 billion gallons were 2.2 billion gallons or 6.1% above 2009 sales of 35.80 billion gallons.
- Operating Expenses increased by $5,423,939 or 5.8%, due to increases in Operations and Maintenance, Depreciation Expenses, Loss from Retirement of Assets and Water and Fire Service Provided in Lieu of Taxes.
- Net Non-Operating Expenses increased by $2,878,211 or 65.9%. This is primarily due to increased interest expense on the 2009 bond issue.
- Net Income before Dividends and Contributions increased by $4,092,406 or 10.9% primarily due to increased water sales over 2009.

- Dividends Paid and Payable increased by $1,185,717 or 7.0% due to increased net income.

STATEMENT OF NET ASSETS

Total Net Assets increased by $33,002,138 or 4.4% in 2010 (see Figure 1). The largest portion of Net Assets is Net Utility Plant, which increased by $50,428,054 in 2010 through capital improvements. The capital improvements were funded by the 2009 bond issue, cash generated from operations and by Contributions in Aid of Construction from developers, customers, and governmental agencies. Noncurrent Assets decreased by $80,803,379 due to maturities of bond fund investment in 2011. Current Assets increased by $63,798,519 primarily due to proceeds from the December 2009 bond sale. Current Liabilities increased by $9,677,450 due to capital projects completed in 2010 but not invoiced. Long-term Liabilities decreased by $9,256,394 due to principal payments on long term debt. Long-term debt is discussed in more detail in the section titled Debt Administration.

Figure 1

Condensed Statement of Net Assets

	2010	*2009*	*Difference*	*Percent*	*2008*
Current Assets	$ 101,852,750	$ 38,054,231	$ 63,798,519	167.7%	$ 39,011,818
Noncurrent Assets	89,815,553	170,618,932	(80,803,379)	(47.4%)	67,664,986
Net Utility Plant	919,591,175	869,163,121	50,428,054	5.8%	828,016,120
Total Assets	1,111,259,478	1,077,836,284	33,423,194	3.1%	934,692,924
Current Liabilities	45,128,087	35,450,637	9,677,450	27.3%	42,643,842
Long Term Liabilities	288,071,479	297,327,873	(9,256,394)	(3.1%)	174,891,302
Total Liabilities	333,199,566	332,778,510	421,056	.1%	217,535,144
Total Net Assets	$ 778,059,912	$ 745,057,774	$ 33,002,138	4.4%	$717,157,780

2009 COMPARED TO 2008

Total Net Assets increased by $27,899,994 or 3.9% in 2009. This was primarily due to an increase of $41,147,001 in Net Utility Plant due to capital investments in our infrastructure.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating Revenues increased by $12,394,556 or 9.1% in 2010 (see Figure 2). Total water consumption increased by 2.2 billion gallons or 6.1% in 2010. The increase relates to an unusually cool and rainy irrigation season in 2009 compared to a hot, dry summer in 2010. This increase in consumption was coupled with a 4.5% increase in water rates effective January 1, 2010.

Operating Expenses increased by $5,423,939 or 5.8% in 2010. The key components of operating expenses are: Operation and Maintenance Expenses, Depreciation and Amortization Expenses, Water and Fire Service Provided in Lieu of Taxes, and Loss on Disposition of Assets. Operations and Maintenance Expenses increased $3,018,366 due to increased labor, benefits, power, chemicals, and transportation. Depreciation and Amortization Expense increased by $863,351 due to increased investments in utility plant. Water and Fire Service in Lieu of Taxes increased by $943,397 due to increased water rates and fire hydrant charges. The loss on Disposition of Assets increased by $598,825 primarily due to increased retirement of undepreciated assets.

Net Non-Operating Expenses (non-operating expenses less non-operating income) increased by $2,878,211 or 65.9% in 2010. This is primarily related to the interest expense on the new bonds issued in December of 2009.

Net Income before Distributions and Contributions increased by $4,092,406 or 10.9% in 2010 due to increased water sales and the water rate increase, which was effective January 1, 2010. The formula for computing the dividend is established as a covenant in the Series 2009 Bond Resolution (the Master Bond Resolution). The dividend was calculated in 2009 as 60% of net income after deducting bond principal payments and certain other items. The calculation was modified per the resolution in 2010 to 50% of adjusted net income, which is net income after reducing for certain items, specifically deposits to the infrastructure replacement reserve. A three-year averaging is used to adjust for the volatility in net income resulting from the changing weather. Dividends Paid and Payable increased by $1,185,717 or 7.0%, from $16,863,654 to $18,049,371 due to increased net income in 2010.

Contributions in Aid of Construction are composed of: grants from federal, state or local governments, pipeline contributions from developers for water main extensions and from governmental agencies for water main relocations, service installation fees from customers, apportionment warrant fees and tapping fees from customers to extend water service to unserved areas, and system development charges from customers for growth-related expansion. The level of capital contributions varies from year-to-year and is affected by economic cycles. These types of projects are fully funded or nearly-fully funded by outside entities in advance of construction. Contributions in Aid of Construction increased by $2,195,455 or 29.9% over the previous year due to American Reinvestment and Recovery Act (ARRA) funds awarded in 2010.

Figure 2

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2010	*2009*	*Difference*	*Percent*	*2008*
Operating Revenue	$148,227,865	$135,833,309	$12,394,556	9.1%	$136,743,203
Operating Expenses	99,474,525	94,050,586	5,423,939	5.8%	93,463,409
Net Operating Revenue	48,753,340	41,782,723	6,970,617	16.7%	43,279,794
Net Non-Operating Expenses	7,244,843	4,366,632	2,878,211	65.9%	4,037,780
Net Income Before Distributions and Contributions	41,508,497	37,416,091	4,092,406	10.9%	39,242,014
Dividends Paid and Payable	18,049,371	16,863,654	1,185,717	7.0%	17,530,210
Contributions in Aid of Construction	9,543,012	7,347,557	2,195,455	29.9%	11,962,468
Increase in Net Assets	33,002,138	27,899,994	5,102,144	18.3%	33,674,272
Net Assets, Beginning of Year	745,057,774	717,157,780	27,899,994	3.9%	683,483,508
Net Assets, End of Year	$778,059,912	$745,057,774	$33,002,138	4.4%	$717,157,780

2009 COMPARED TO 2008

Operating Revenues decreased by $909,894 or 0.7% in 2009 compared to 2008. Total water sales decreased by 2.9 billion gallons or 7.5%. This decline was related to the unusually cool and rainy irrigation season in 2009 coupled with the economic recession. Operating Expenses increased by $587,177 or 0.6% in 2009.

STATEMENT OF CASH FLOWS

Cash and Temporary Investments at the end of 2010 were $14,103,476 which was 5.3% higher than at the end of 2010 (see Figure 3). Cash from Operating Activities increased by $21,145,683 due to increased cash from customers and a decrease in cash paid to suppliers and others. Cash from Capital and Related Financing Activities decreased by $144,648,274 which is primarily related to the proceeds from the bond sale in 2009. Cash from Investing Activities increased by $122,181,937 due to increased reserves in 2009 from the bond issue. A portion of these funds were used in 2010 to fund capital projects.

Figure 3

Condensed Statement of Cash Flows

	2010	*2009*	*Difference*	*Percent*	*2008*
Cash from Operating Activities	$ 85,066,956	$ 63,921,273	$ 21,145,683	33.1%	$73,614,060
Cash from Noncapital Financing Activities	(17,977,398)	(18,319,364)	341,966	1.9%	(16,222,402)
Cash from Capital and Related Financing Activities	(87,214,316)	57,433,958	(144,648,274)	(251.9%)	(73,370,977)
Cash from Investing Activities	20,836,447	(101,345,490)	122,181,937	120.6%	13,386,923
Change in Cash and Temporary Investments	711,689	1,690,377	(978,688)	(57.9%)	(2,592,396)
Cash and Temporary Investments, Beginning of Year	13,391,787	11,701,410	1,690,377	14.4%	14,293,806
Cash and Temporary Investments, End of Year	$ 14,103,476	$ 13,391,787	$ 711,689	5.3%	$11,701,410

In addition to the amounts held in Cash and Temporary Investments, Louisville Water also holds funds for capital improvements in reserves totaling $68,491,890 under Reserves in Noncurrent Assets on the Statement of Net Assets.

2009 COMPARED TO 2008

Cash and Temporary Investments at the end of 2009 were $13,391,787. This was $1,690,377 or 14.4% higher than at the end of 2008. Cash from Capital and Related Financing Activities increased by $130,804,935 which was primarily related to the 2009 bond sale. Cash from Investing Activities decreased by $114,732,413 due to increased reserves related to the 2009 bond issue.

CAPITAL ASSETS

The Company uses a five-year Capital Improvement Program ("CIP") that is updated annually. Every five years, a twenty year facility plan is prepared by our Consulting Engineer. This facility plan was prepared by Camp, Dresser and McKee in 2010. Development of the CIP is based on the Company's current Facilities Plan and recommendations from the annual inspection of facilities. The CIP also identifies anticipated capital expenditures for a total of 10 years. The Company's current Facilities Plan covers the years from 2011 through 2030. The Company expects to invest $365,275,475 in improvements during 2011-2015. The key investment areas for 2011 are: infrastructure renewal, new technology and facilities including renovation of water treatment plants, improvements to storage and boosted pressure systems, and transmission and distribution system improvements.

DEBT ADMINISTRATION

On December 31, 2010, there is $5,260,000 principal outstanding for the Series 2001 Bonds; $76,975,000 principal outstanding for the Series 2006 Bonds; $115,660,000 principal outstanding for the Series 2009A Bonds; $86,710,000 principal outstanding for the Series 2009B Bonds; and $1,811,169 principal outstanding for the ARRA loan for a total of $286,416,169. As shown in Figure 4, the debt service coverage of 2.30 times in 2010 is favorable to the statutory and bond resolution limits of 1.3 times. The Series 2000 Bonds are defeased. The Series 2001 Bonds are not insured, but have been partially advance refunded with the remaining portion callable beginning in 2010, and carry a Aaa rating from Moody's and a AAA rating from Standard & Poor's. The Series 2006 Bonds have a combination of insured and uninsured maturities, are callable beginning in 2016, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Series 2009A and 2009B Bonds are not insured, callable beginning in 2019, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Company was upgraded in December 2009 to AAA from Standard & Poor's and recalibrated to Aaa from Moody's in May of 2010.

Figure 4

Debt Service Coverage

	2010	*2009*	*Difference*	*Percent*
Income Available for Debt Service	$ 52,006,952	$ 44,075,946	$ 7,931,006	18.0%
Current Aggregate Net Debt Service	22,599,302	18,146,596	4,452,706	24.5%
Coverage Times	2.30	2.43	(.13)	(5.4%)

The Company's debt rating is among the very highest in the United States for water utility revenue bonds.

2009 COMPARED TO 2008

In December of 2009, the Company issued the 2009A and 2009B Series Bonds for $116,220,000 and $86,710,000 respectively. The debt service coverage in 2009 was 2.43 as compared to 2.69 in 2008.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management believes the 2011 Budget adequately addresses all revenue requirements. Water rates increased for retail water service by 3.75% on January 1, 2011. Management is currently evaluating rates for wholesale customers and will be recommending an increase effective July 1, 2011. Future rate changes for three wholesale customers are subject to approval by the Kentucky Public Service Commission.

Management believes that the most challenging economic issues facing Louisville Water in 2011 will be the slow recovery of the economy and the continued decrease in water consumption per account due to low flow plumbing fixtures and conservation.

Management plans to pursue strategies to assure steady top-line revenue growth and profitability through: increasing water sales within the boundaries of existing infrastructure, pursuing traditional growth opportunities for wholesale and retail service, pursuing non-traditional growth opportunities through mergers, acquisitions, joint ventures and management contracts and pursuing new or expanded related business opportunities that capitalize on our existing competencies, expertise and strengths.

COMPUTATION OF STOCKHOLDER'S EQUITY

Stockholder's equity for Louisville Water is no longer published in the audited financial statements following adoption of GASB 34 in 2002. Using the Common Stock, Retained Earnings, and Total Equity Capital reported in the 2001 audited financial statements and using Income before Distributions and Contributions less Dividends Paid and Payable from audited financial statements for subsequent years, Figure 5 below describes management's computation of stockholder's equity for the years ending December 31, 2010 and 2009.

Figure 5

Computation of Stockholder's Equity

	2010	*2009*	*Difference*	*Percent*
Total Equity Capital, Beginning of Year	$427,180,704	$406,628,267	$20,552,437	5.0%
Plus Income before Distributions and Contributions	41,508,497	37,416,091	4,092,406	10.9%
Less Dividends Paid and Payable	(18,049,371)	(16,863,654)	1,185,717	7.0%
Total Equity Capital, End of Year	450,639,830	427,180,704	23,459,126	5.5%
Less Cumulative Deposits to Infrastructure Replacement Reserve	(42,053,333)	(40,053,333)	2,000,000	5.0%
Stockholders Equity Eligible for Return Computation	$408,586,497	$387,127,371	$21,459,126	5.5%

The adjusted net income for 2010 for dividend and return on equity computation was $39,508,497. The return on equity earned by Louisville Water in 2010 was 9.67%.

COMPARATIVE ANALYSIS OF FINANCIAL RESULTS

To optimize long-term financial viability, Louisville Water management plans for and monitors five groups of financial metrics: liquidity, capitalization, coverage, profitability and dividend payout. Figure 6 below describes management's computation of certain financial ratios within each of these groups of metrics.

Figure 6

Comparative Analysis of Financial Results

Liquidity	*Access Readily Available Assets to Meet Near-Term Obligations*	*2009*	*2010*	*2011 Budget*	*Target*
Days of Funded Operations	(Cash + Unrestricted Fund Reserves)/(O&M Expense/365)	550	509	300	> 200
Days of Cash Funded Operations	Cash/(O&M Expense/365)	87	87	71	> 60

Capitalization	*Reliance on Debt Financing for Capital Investments*	*2009*	*2010*	*2011 Budget*	*Target*
Long Term Debt to Net Utility Plant	Long Term Debt/ Net Utility Plant	33.95%	31.15%	27.93%	<35%
Debt to Capitalization	Long Term Debt/(Long Term Debt + Unrestricted Stock Equity)	43.26%	41.21%	39.23%	

Coverage	*Capacity to Make Debt Service Payments*	*2009*	*2010*	*2011 Budget*	*Target*
Debt Service Coverage	EBIT/Debt Service EBIT/Maximum Aggregate Debt Service	Current 2.43 Max Year 1.60	Current 2.30 Max Year 1.88	Current 2.48 Max Year 1.93	Current Target >2.0 Minimum >1.3
Debt Service Safety Margin	(O&M Expense + Debt Service)/ (Operating Revenue + Non-Operating Revenue)	45.79%	45.35%	46.57%	>30%
EBITDA/ Interest Expense	EBITDA/Interest Expense	8.95x	7.36x	7.93x	>5.0x
Profitability	*Profitability of the Company*	*2009*	*2010*	*2011 Budget*	*Target*
Return on Equity	(Net Income - IRR-Construction Interest)/ Stockholder Equity Eligible for Return	9.67%	9.67%	8.96%	2009 >9.80% 2010 >9.80% 2011 >9.80%
Return on Assets	(Net Income - IRR - Construction Interest)/ Total Assets	3.47%	3.56%	3.35%	
Return on Net Utility Plant	(Net Income - IRR - Construction Interest)/ Net Utility Plant	4.30%	4.30%	3.87%	
Net Profit Margin	(Net Income - IRR - Construction Interest)/ Operating Revenue	27.55%	26.65%	24.90%	
Operating Margin	EBITDA/Operating Revenue	58.62%	60.05%	60.15%	
Dividend Payout	*Measurement of Distribution of Profit as a Dividend*	*2009*	*2010*	*2011 Budget*	*Target*
Dividend Payout	Dividends Declared/ (Net Income - IRR - Construction Interest)	45.07%	45.68%	48.49%	
Total Transfers	(Water and Fire Service in Lieu of Taxes + Dividends)/ Operating Revenue	21.44%	21.09%	21.04%	
Dividend Yield	Dividends Declared/ Stockholder Equity Eligible for Return	4.36%	4.42%	4.34%	

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, ratepayers, customers, creditors and stockholder with a general overview of the Company's finances and to show the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at Louisville Water, 550 South Third Street, Louisville, KY, 40202.

STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and temporary investments	$ 14,103,476	$ 13,391,787
Bond investments	59,613,499	–
Accounts receivable, net	16,693,052	14,234,838
Contracts receivable, current portion	442,406	383,362
Materials and supplies	6,603,599	6,297,482
Bond service account – Series 2000	–	501,896
Bond service account – Series 2001	177,731	712,103
Bond service account – Series 2006	505,838	522,864
Bond service account – Series 2009A	1,118,847	–
Bond service account – Series 2009B	348,281	–
Cost of issuance account – Series 2009	–	259,045
Other current assets	1,487,633	1,609,960
Accrued interest receivable	758,388	140,894
Total current assets	101,852,750	38,054,231
Utility plant, net of accumulated depreciation	919,591,175	869,163,121
Noncurrent assets		
Non-utility property	202,526	198,057
Contracts receivable	1,886,399	2,083,144
Reserves	83,921,753	163,538,566
Retirement plan past service costs, net	71,134	284,536
Preliminary engineering charges	572,809	479,381
Prepaid regulatory assets	3,160,932	4,035,248
Total noncurrent assets	89,815,553	170,618,932
Total Assets	$1,111,259,478	$1,077,836,284

See accompanying notes to financial statements

	2010	2009
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 13,638,770	$ 6,678,784
Accounts payable, sewer collections	11,447,740	9,129,425
Customer deposits and advances	4,329,339	4,442,100
Tax collections payable	580,436	526,588
Accrued interest payable	1,643,613	906,258
Dividend payable	71,973	-
Contracts payable, retainage percentage	870,648	807,745
Accrued payroll	337,489	256,474
Accrued vacation and sick leave	909,074	882,623
Insurance reserve	1,434,005	1,315,640
Bonds and notes payable, current portion	9,865,000	10,505,000
Total current liabilities	45,128,087	35,450,637
Long-term liabilities		
Customer advances for construction	1,866,856	2,573,206
Unamortized debt premiums, discounts		
cost of issuance and deferred loss	9,653,454	10,149,667
Bonds and notes payable, less current portion	276,551,169	284,605,000
Total long-term liabilities	288,071,479	297,327,873
Total liabilities	333,199,566	332,778,510
Net assets		
Unrestricted	58,812,456	5,470,179
Invested in capital assets, net of related debt	633,175,006	574,053,121
Restricted, expendable	86,072,450	165,534,474
Total net assets	778,059,912	745,057,774
Total Liabilities and Net Assets	$1,111,259,478	$1,077,836,284

See accompanying notes to financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended December 31, 2010 and 2009

	2010	2009
Revenues		
Operating revenues	$148,227,865	$135,833,309
Operating expenses		
Operation and maintenance expenses	59,221,869	56,203,503
Depreciation	24,495,742	23,502,207
Amortization	700,262	830,446
Water and fire service provided in lieu of taxes	13,207,890	12,264,493
Loss from sale and salvage of retired assets	1,848,762	1,249,937
Total operating expenses	99,474,525	94,050,586
Net operating revenue	48,753,340	41,782,723
Non-operating revenue (expense)		
Interest income	1,247,191	868,127
Interest expense	(8,649,655)	(5,409,953)
Other income	157,621	175,194
Net non-operating expense	(7,244,843)	(4,366,632)
Income before distributions and contributions	41,508,497	37,416,091
Distributions and contributions		
Dividends paid and payable	(18,049,371)	(16,863,654)
Contributions in aid of construction	9,543,012	7,347,557
Net distributions and contributions	(8,506,359)	(9,516,097)
Increase in net assets	33,002,138	27,899,994
Net assets, beginning of year	745,057,774	717,157,780
Net assets, end of year	$778,059,912	$745,057,774

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Cash received from customers	$134,106,753	$124,135,597
Cash paid to suppliers and others	(25,030,951)	(36,428,463)
Cash paid to employees for services	(24,008,846)	(23,785,861)
Net cash from operating activities	85,066,956	63,921,273
Cash flows from noncapital financing activities		
Dividends paid to stockholder	(17,977,398)	(18,319,364)
Cash flows from capital and related financing activities		
Acquisition and construction of utility plant	(78,850,737)	(67,906,779)
Proceeds from 2009 Series bonds	–	124,545,000
Proceeds from ARRA loan	1,811,169	–
Unamortized debt discounts and costs of issuance	174,134	(699,146)
Unamortized debt premium on 2009 Series bonds	(670,347)	10,099,012
Contributions in aid of construction	9,543,012	7,347,557
Repayment of customer advances for construction	(706,350)	(1,003,295)
Preliminary engineering charges	(93,428)	(36,522)
Principal paid	(10,505,000)	(9,310,000)
Interest paid	(7,912,300)	(5,602,369)
Non-utility property reduction (addition)	(4,469)	500
Net cash from capital and related financing activities	(87,214,316)	57,433,958
Cash flows from investing activities		
Reserved funds	20,262,359	(102,928,817)
Restricted funds	(413,834)	(34,693)
Contracts	137,701	183,889
Contracts, retainage percentage	62,903	451,013
Interest received	629,697	807,924
Other non-operating expense	157,621	175,194
Net cash from investing activities	20,836,447	(101,345,490)
Net change in cash and temporary investments	711,689	1,690,377
Cash and temporary investments, beginning of year	13,391,787	11,701,410
Cash and cash temporary investments, end of year	$ 14,103,476	$ 13,391,787

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS *(continued)*

Years ended December 31, 2010 and 2009

	2010	2009
Reconciliation of net operating revenue to net cash from operating activities		
Net operating revenue	$48,753,340	$41,782,723
Adjustments to reconcile net operating revenue to net cash from activities		
Depreciation	25,873,659	24,679,394
Amortization	700,262	830,446
Amortization of retirement plan past service costs	213,402	213,401
Loss from sale and salvage of retired assets	1,848,762	1,249,937
Increase (decrease) in cash due to changes in current assets and liabilities		
Accounts receivable	(2,458,214)	2,959,901
Materials and supplies	(306,117)	1,193,549
Other current assets	122,327	(1,102,986)
Other deferred charges	874,316	(694,000)
Accounts payable	6,959,986	(3,527,358)
Accounts payable, sewer collections	2,318,315	(2,298,019)
Customer deposits	(112,761)	(633,043)
Tax collections payable	53,848	(108,692)
Accrued vacation and sick leave	26,451	–
Accrued payroll	81,015	(280,873)
Insurance reserve	118,365	(343,107)
Net cash from operating activities	$85,066,956	$63,921,273

See accompanying notes to financial statements

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Description of the Business: Louisville Water (the "Company") is a provider of water and related services to residential, commercial, industrial, fire and wholesale consumers in Jefferson, Bullitt and Oldham Counties. The Company is wholly owned by Louisville Metro Government ("Metro Government") and therefore follows Governmental Accounting Standards.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The Company has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The financial statements include the accounts of Louisville Water and have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Company is an Enterprise fund and reports as a Business Type Activity ("BTA"). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

The Company classifies resources for accounting and reporting purposes into the following net asset categories:

- *Invested in capital assets, net of related debt:*
  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted:*
  Nonexpendable - Net assets subjected to externally imposed stipulations that they be maintained permanently by the Company.

  Expendable - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.
- *Unrestricted:*
  Net assets whose use by the Company is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Water Works or may otherwise be limited by contractual agreements with outside parties.

Method of Accounting: The Company's accounting policies conform to accounting principles generally accepted in the United States of America for water utilities. Although the Company is not subject to regulation, the accounts are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except with respect to the treatment of gains and losses from the retirement or disposition of utility plant. The Company recognizes gain or loss, including cost of removal, upon the retirement or disposition of utility plant rather than the transfer of cost to accumulated depreciation, as provided by the National Association of Regulatory Utility Commissioners.

Taxes: The Company, by virtue of its ownership by Metro Government, is exempt from taxation by federal, state and local taxing authorities. However, the Company is liable for certain other taxes and provides water and fire services in lieu of taxes to Metro Government. Tax expense, which includes water and fire services in lieu of taxes for 2010 and 2009, was $13,207,890 and $12,264,493, respectively.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the 2009 Statement of Net Assets have been reclassified to conform with the 2010 presentation. The change had no effect on Net Assets.

Statements of Cash Flows: For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be temporary investments.

Union Employees: The Company has numerous employees who are covered by a collective bargaining agreement. At December 31, 2010, approximately 48% of the Company's full-time employees were covered by a collective bargaining agreement. The existing collective bargaining agreement expired January 31, 2011 and was renegotiated for five years, expiring February 28, 2016, and ratified on February 8, 2011.

Recent Accounting Pronouncements: GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* was issued in June 2007 and is effective for fiscal years beginning after June 15, 2009. The standard is effective for the year ending December 31, 2010. This GASB Statement did not have a material impact on the Company's financial statements or disclosures.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for fiscal years beginning after June 15, 2009, became effective in 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This GASB statement did not have a material impact on the Company's financial statements or disclosures.

Materials and Supplies: Materials and supplies inventories are stated at the lower of average cost or market.

Utility Plant: Utility plant is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases of with a unit cost of $2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. The estimated useful lives of some significant asset categories are as follows:

Buildings	50 to 100 years
Pipelines	65 to 100 years
Fire hydrants	50 years
Services	40 years
Meters	15 years
Equipment	5 to 10 years
Trucks and autos	5 years

Depreciation expense for 2010 was $25,873,659, of which $1,377,917 was allocated to other operating expenses. Depreciation expense for 2009 was $24,679,394, of which $1,177,187 was allocated to other operating expenses.

Capitalized Interest: The Company follows the practice of capitalizing interest during construction on capital projects that are debt financed. Interest in the amount of $2,933,590 and $3,426,643 was capitalized during 2010 and 2009, respectively.

Prepaid Regulatory Assets: The Company adopted Financial Accounting Standard No. 71 *"Accounting for the Effects of Certain Types of Regulation"* effective January 2006 and is currently amortizing development costs of $3,186,000 over five years beginning in 2006 and abandoned plant assets of $3,593,782 and $1,606,524 over eight years beginning in 2007 and 2009, respectively. In 2010, $278,332 was added to the account which will be amortized over five years beginning in 2011.

Allowance for Doubtful Accounts: The allowance for doubtful accounts on accounts receivable is established based on historical collection experience and a review of the current status of existing receivables.

Accrued Vacation and Sick Leave: Employees' vested and accumulated sick leave is recorded as a liability on the balance sheets. Sick leave was $909,074 and $882,623 as of December 31, 2010 and 2009, respectively. Vacation time does not carry over from year-to-year and must be used by December 31st of the year in which it is awarded or purchased.

Customer Deposits: The Company has implemented a security deposit policy for all customers applying for residential, commercial or industrial water service who: (i) have not had an account with the Louisville Water for three consecutive years; or (ii) have had a previous account in bad debt or bankruptcy status; or (iii) have had a service disconnected due to non-payment within the last three years of service. The Company refunds the security deposit when: (i) a customer closes the account; or (ii) the customer has paid their bill in a timely manner for three consecutive years. Additionally, the Company charges a security deposit for temporary meters for construction. Total security deposits at December 31, 2010 and 2009 were $2,662,090 and $2,509,040, respectively. Customer deposits are included as Customer Deposits and Advances in current liabilities on the statement of net assets.

Customer Advances for Construction: The Company requires customers to make a deposit for the cost of construction of pipelines and special services. Deposits are refundable to the extent the deposit is in excess of the construction cost. These deposits for construction are reflected as a current liability until the completion of the project. The customer advance accounts reflect the anticipated long-term liability for refunding construction costs based on future new service installations within certain time limits up to 20 years. Once the refund period has expired, any balance is recorded as a contribution in aid of construction in the Company's statements of revenues, expenses and changes in net assets. Total customer advances for construction at December 31, 2010 and 2009 were $1,667,249 and $1,933,060, respectively. Customer advances for construction are included as customer deposits and advances in current liabilities on the statement of net assets.

Investments: Investments are reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net assets. Short-term investments in agency obligations that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost. Gains or losses on dispositions are determined using the specific identification method.

Amortization: Amortization of bond discounts, expenses, and premiums are amortized over the life of the related bonds.

Operating/Non-Operating Revenues and Expenses: Operating Revenues are those revenues that are generated directly from the primary activity of the Company. These revenues are water service and commodity charges, late and other water related fees, and compensation for service provided to others. Operating expenses are expenses incurred through the activities of operating and maintaining the Company, including depreciation, water provided in lieu of taxes, and loss on disposition of assets. Non-operating revenues and expenses are comprised of investment and financing earnings and costs.

Revenue: Revenue is recognized in the period in which billings are rendered to consumers. The Company does not accrue revenue for water delivered but not billed.

Contributed Capital and Construction Grants: Construction and acquisition of water lines and other facilities and plants are financed in part from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction costs incurred where paperwork has been submitted to the entity. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from contributions are part of the change in net assets.

NOTE 2
ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2010 and 2009 include:

	2010	2009
Water	$5,456,502	$4,700,836
Sewer	10,542,070	8,178,961
Other	1,315,853	1,966,525
	17,314,425	14,846,322
Allowance for doubtful accounts	(621,373)	(611,484)
	$16,693,052	$14,234,838

NOTE 3
2009 BOND ISSUE

The Company issued $202.93 million in tax-exempt and taxable revenue bonds on December 17, 2009. Series 2009A Bonds, totaling $116.22 million were tax-exempt, with an advance refunding of a portion of 2000 and 2001 series bonds and a new money issue. The Series 2009A Bonds advance refunded $61.870 million of the outstanding Series 2000 Bonds with interest rates from 5.0% to 5.5% and $16.515 million of the Series 2001 Bonds with interest rates from 4.0% to 4.7%. The Company used the proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable refunding escrow to provide for all future debt service on the refunded portion of the Series 2000 and 2001 Bonds. As a result, that portion of the Series 2000 and 2001 Bonds is considered defeased, and the Company has removed the amount advance refunded from its accounts. The outstanding principal of the defeased portion of the 2000 and 2001 bonds is $61.870 million and $16.515 million, respectively, as of December 31, 2009. There was no outstanding principal related to defeased bonds at December 31, 2010.

The advance refunding reduced total debt service payments over the next 15 years for Series 2000 and 4 years for Series 2001 Bonds by $11.74 million and $1.24 million, respectively. This results in an economic gain of $8.1 million for the 2000 series and $1.02 million for the 2001 series. The advanced refunding of the Series 2000 and 2001 Bonds also produced a deferred loss on refunding totaling $4,232,789 which included in unamortized debt premiums, discounts, and costs of issuance on the statement of net assets and will be amortized over the remaining life of the advance refunded bonds.

NOTE 4
2009 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2009 reserve is invested in mutual funds and is stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets, guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account.

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for the funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 and $2,000,000 for 2010 and 2009, respectively. There were deposits of $2,000,000 and $0 during 2010 and 2009, respectively. The balance at December 31, 2010 is invested in a sweep account collateralized by pledged assets and stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on both the Series 2009A and 2009B Bonds outstanding and one-twelfth of the next maturing principal of those bonds, The account is invested in a government obligation mutual fund and is stated at fair value.

Revenue: The 2009 Master Bond Resolution requires all Revenues received by the Company and not required to be deposited elsewhere or otherwise reserved for Special Investments will be collected by the Company and deposited as received with a Depository or Depositories to the credit of the Revenue Fund.

Operation Fund: Per the 2009 Master Bond Resolution, each month the Company shall, after making required payments to the Bond Service Account, the Bond Reserve Account, and the Depreciation Fund, withdraw from the Revenue Fund and deposit with a Depository in the name of the Company to the credit of the Operation Fund the balance remaining in the Revenue Fund. The fund is included in cash and temporary investments.

Rebate Fund: The Rebate Fund is created by the 2009 Master Bond Resolution. Monies credited to the Rebate Fund shall be free from the lien of the Resolution. Payments shall be made by the Board of Water Works and the Company within 15 days following each five-year computation period for the calculation of excess rebateable arbitrage under the Internal Revenue Code. The Board and the Company have covenanted to rebate excess earnings to the United States in accordance with law. There were no deposits required to be made to this fund during 2010.

NOTE 5
2006 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2006 reserve is invested in mutual funds and is stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets, guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account. This fund and the funding requirements are also included in the 2000, 2001 and 2009 bond issues (see Notes 4, 6 and 7).

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 and $2,000,000 for 2010 and 2009, respectively. There were deposits of $2,000,000 and $0 to this reserve in 2010 and 2009, respectively. The balance at December 31, 2010 is invested in a sweep account collateralized by pledged assets and stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the Series 2006 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 6
2001 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2001 reserve is invested in U. S. Treasury Bonds and is stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one- twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets, guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account. This fund and the funding requirements are also included in the 2000, 2006 and 2009 bond issues (see Notes 4, 5 and 7).

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 and $2,000,000 for 2010 and 2009, respectively. There were deposits of $2,000,000 and $0 during 2010 and 2009, respectively. The balance at December 31, 2010 is invested in a sweep account collateralized by pledged assets and stated at fair value.

U. S. Treasury State and Local Government Fund: The Series 2 Note Reserve was established in the amount of $1,440,400 pursuant to the 2009 Master Bond Resolution. The note was paid in August 1993 and the reserve amount was transferred to the Company and was deposited in the U.S. Treasury State and Local Government Fund. The excess funds from the Series 2001 Bond Issue were deposited in this fund. The fund is invested in U.S. Treasury bonds and is stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the Series 2001 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 7
2000 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The resolution authorizing the Series 2000 Bond Issue requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. As an alternative, the Resolution provides for deposit of an insurance policy, surety bond or other comparable security into the Reserve Account in an amount sufficient to meet the bond reserve requirement. The Company maintains an insurance policy to meet this requirement. The policy is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient.

Depreciation Fund: The 2009 Master Bond Resolution authorizing the Series 2000 Bond Issue requires the Company to maintain the depreciation fund in the same manner as required for the 2001 series (refunding 1992) bond issue (see Note 4,5, and 6).

Bond Service Account: Per the 2009 Master Bond Resolution, except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the Series 2000 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

The final maturity on the Series 2000 Bond Issue was paid in 2010.

NOTE 8

RESERVES

Reserve Fund assets for the years ended December 31, 2010 and 2009, include the following:

	2010	2009
Bond related reserves		
Bond reserve account	$ 13,789,720	$ 13,789,175
Construction and acquisition fund	–	76,759,976
Total bond related reserves	13,789,720	90,549,151
Capital related reserves		
Depreciation fund	44,042,256	58,810,475
Infrastructure replacement	24,425,627	12,514,892
Bullitt County water reserve	24,007	23,905
Total capital related reserves	68,491,890	71,349,272
Other reserves		
U.S. Treasury state and local government fund	1,640,143	1,640,143
	$ 83,921,753	$ 163,538,566

NOTE 9

CASH AND INVESTMENTS

The Company has adopted the provisions of GASB Statement No. 40, *"Deposits and Investment Risk Disclosures."* This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Company's investment policy specifies that the primary objectives, in priority order, of investment activities is safety, liquidity and yield, In addition, funds are to be invested in conformity with federal, state and other legal requirements, including bond resolutions.

At December 31, 2010, $14,571,429 of temporary investments, which was comprised of a sweep account, was collateralized by financial institutions with pledged assets. Of the $988,359 cash in bank at December 31, 2010, $500,000 was covered by insurance provided by the Federal Deposit Insurance Company ("FDIC"). At December 31, 2009, $13,184,000 of temporary investments, which was comprised of a sweep account, was collateralized by financial institutions with pledged assets. Of the $1,356,301 cash in bank at December 31, 2009, $500,000 was covered by insurance provided by the FDIC. The remaining cash balance was uninsured and uncollateralized.

Information related to cash and investments for December 31, 2010 and 2009 is included below.

	Amortized Cost/ Fair Value	Weighted Average Maturity in Years	Credit Rating
December 31, 2010			
Agency bonds	$59,613,499	0.54	Aaa
Mutual funds	12,880,559	0.15	Aaa
U. S. Treasury bonds	4,700,000	2.88	Aaa
Certificates of deposit	5,099,723	1.44	
Repurchase agreement sweep accounts	77,937,588		
Cash in bank and petty cash	988,578		
	161,219,947	0.67	
Checks issued against cash on deposit	(1,430,522)		
Total cash and investments	$159,789,425		
December 31, 2009			
Mutual funds	$89,485,202	0.09	Aaa
U. S. Treasury bonds	4,700,000	3.82	Aaa
Certificates of deposit	10,000,000	0.45	
Repurchase agreement sweep accounts	74,529,000		
Cash in bank and petty cash	1,357,151		
	180,071,353	0.29	
Checks issued against cash on deposit	(1,145,092)		
Total cash and investments	$178,926,261		

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk; however, the Company has accounts set up to mitigate this risk: (i) certain deposits are collateralized by pledged assets; (ii) insurance provided by the FDIC; and (iii) accounts are set up with overnight sweep accounts so that cash is invested in short term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Company's investments are held in the name of the Company by a custodian in funds that are backed by the U.S. Treasury, collateralized by the U.S. Treasury and certificates of deposit covered under FDIC insurance.

Concentration of Credit Risk: The Company has a formal policy restricting the amount it may invest in any one issuer.

Interest Rate Risk: The Company does not have a formal policy limiting maturities of its investments. Investments are made based on the prevailing market conditions and anticipated cash needs at the time of the transaction.

Credit Risk: The Company has historically only purchased investment grade securities. The Moody's rating for the U.S Treasury Bonds listed above is Aaa.

NOTE 10
UTILITY PLANT, NET

The following is a schedule of utility plant for the year ended December 31, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,855,938	$ 203,913	$ –	$ 9,059,851
Construction in progress	108,114,198	84,199,997	(73,324,476)	118,989,719
Total capital assets not being depreciated	116,970,136	84,403,910	(73,324,476)	128,049,570
Other capital assets				
Buildings	103,776,859	10,529,962	(187,273)	114,119,548
Machinery and equipment	53,877,341	2,749,542	(2,536,078)	54,090,805
Infrastructure	915,945,923	54,775,362	(3,585,047)	967,136,238
Total other capital assets at historical cost	1,073,600,123	68,054,866	(6,308,398)	1,135,346,591
Less accumulated depreciation for Buildings	(36,202,514)	(2,709,582)	77,253	(38,834,843)
Machinery and equipment	(37,242,344)	(4,674,568)	2,450,310	(39,466,602)
Infrastructure	(247,962,280)	(18,621,123)	1,079,862	(265,503,541)
Total accumulated depreciation	(321,407,138)	(26,005,273)	3,607,425	(343,804,986)
Other capital assets, net	752,192,985	42,049,593	(2,700,973)	791,541,605
Capital assets, net	$ 869,163,121	$ 126,453,503	$ (76,025,449)	$ 919,591,175

The following is a schedule of utility plant for the year ended December 31, 2009:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 7,713,528	$ 1,142,410	$ –	$ 8,855,938
Construction in progress	73,640,974	73,729,462	(39,256,238)	108,114,198
Total capital assets not being depreciated	81,354,502	74,871,872	(39,256,238)	116,970,136
Other capital assets				
Buildings	101,356,869	2,540,084	(120,094)	103,776,859
Machinery and equipment	49,729,968	5,284,669	(1,137,296)	53,877,341
Infrastructure	896,963,599	27,750,821	(8,768,497)	915,945,923
Total other capital assets at historical cost	1,048,050,436	35,575,574	(10,025,887)	1,073,600,123
Less accumulated depreciation for				
Buildings	(33,872,341)	(2,382,216)	52,043	(36,202,514)
Machinery and equipment	(33,641,106)	(4,661,634)	1,060,396	(37,242,344)
Infrastructure	(233,875,371)	(17,736,690)	3,649,781	(247,962,280)
Total accumulated depreciation	(301,388,818)	(24,780,540)	4,762,220	(321,407,138)
Other capital assets, net	746,661,618	10,795,034	(5,263,667)	752,192,985
Capital assets, net	$ 828,016,120	$ 85,666,906	$ (44,519,905)	$ 869,163,121

NOTE 11

LONG-TERM LIABILITIES

Long-term liabilities at December 31, 2010, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$295,110,000	$ –	$(10,505,000)	$284,605,000	$9,865,000	$274,740,000
ARRA note payable	–	1,811,169	–	1,811,169	–	1,811,169
Unamortized debt premiums, discounts, costs of issuance and deferred loss	10,149,667	–	(496,213)	9,653,454	–	9,653,454
Customer advances for construction	2,573,206	266,405	(972,755)	1,866,856	–	1,866,856
Total long-term liabilities	$307,832,873	$2,077,574	$(11,973,968)	$297,936,479	$9,865,000	$288,071,479

Long-term liabilities at December 31, 2009, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$179,875,000	$124,545,000	$(9,310,000)	$295,110,000	$10,505,000	$284,605,000
Unamortized debt premiums, discounts, costs of issuance and deferred loss	749,801	8,307,529	1,092,337	10,149,667	–	10,149,667
Customer advances for construction	3,576,501	341,173	(1,344,468)	2,573,206	–	2,573,206
Total long-term liabilities	$184,201,302	$133,193,702	$(9,562,131)	$307,832,873	$10,505,000	$297,327,873

Bonds and notes payable consist of the following:

	2010	2009
Water System Revenue Bonds, 2000 tax exempt, interest rates ranging from 5.0% to 5.5% with maturities from 2003 to 2025	$ –	$ 2,660,000
Water System Revenue Bonds, 2001 tax exempt, interest rates ranging from 4.05 to 4.7% with maturities from 2001 through 2014	5,260,000	10,080,000
Water System Revenue Bonds, 2006 tax exempt, interest rates ranging from 4.0% to 5.0% with maturities from 2001 through 2031	76,975,000	79,440,000
Water System Revenue Bonds, 2009A tax exempt, interest rates ranging from 2.25% to 5.0% with maturities from 2010 through 2025	115,660,000	116,220,000
Water System Revenue Bonds, 2009B taxable, interest rates ranging from 3.75% to 5.5% with maturities from 2017 through 2029.	86,710,000	86,710,000
Kentucky Infrastructure Authority, Drinking Water State Revolving Fund Loan Program, interest rate of 2.0% and maturities from 2012 through 2031	1,811,169	–
	286,416,169	295,110,000
Less current portion	9,865,000	10,505,000
Bonds and notes payable, less current portion	$276,551,169	$284,605,000

All bonds are subject to optional redemption provisions.

The Water System Revenue Bond resolutions contain a rate covenant requiring that the schedule of rates and charges, and the rules and regulations for water services will not be revised so as to result in a decrease of revenues. Also, future adjustments to water rates and charges are required as necessary so that annual net revenues will not be less than 1.30% of the total annual bond debt service requirements for the then outstanding bonds. At December 31, 2010, the Company was in compliance with all of the covenants contained in the agreements.

Maturities of bonds and notes payable are as follows:

Years ended December 31	Principal	Interest	Total
2011	$ 9,865,000	$ 13,158,254	$ 23,023,254
2012	16,384,542	12,757,529	29,142,071
2013	16,696,032	12,317,214	29,013,246
2014	17,367,553	11,644,168	29,011,721
2015	17,774,104	10,808,897	28,583,001
2016 – 2020	82,994,894	41,751,245	124,746,139
2021 – 2025	68,763,598	24,067,390	92,830,988
2026 – 2030	50,991,849	8,376,514	59,368,363
2031	5,578,597	275,668	5,854,265
	$286,416,169	$135,156,879	$421,573,048

NOTE 12
DIVIDENDS

The Company is required by bond resolution to pay a dividend to Metro Government, the sole stockholder. The dividend is calculated in accordance with the provisions of the 2009 Bond resolution and paid quarterly based on budgeted income. For 2010, the required annual dividend is based upon the three year average of the previous two years actual dividend and fifty percent of the Company's current year net income before distributions and contributions with certain adjustments and exclusions (adjusted net income). The dividend computed under this provision was $18,049,371 for 2010. The 2009 dividend of $16,863,654 was based upon the prior dividend calculation of 60% of the Company's current year net income before distributions and contributions with certain adjustments and exclusions (adjusted net income). A settlement based on actual net income is made the following year.

NOTE 13
DEFERRED COMPENSATION PLANS

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. An employee may defer up to 100% of adjusted gross compensation or $16,500; whichever is less, to the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Plan assets and liabilities are not recorded by the Company. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the Plan. The amount contributed to the plan by the Company and charged to expense was $64,783 and $63,989 for the years ended December 31, 2010 and 2009, respectively.

The Company has a defined contribution plan covering substantially all employees of the Company. An eligible employee may defer up to 100% of adjusted gross compensation or $16,500; whichever is less, to the plan. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was $32,570 and $30,519 for the years ended December 31, 2010 and 2009, respectively.

NOTE 14
PENSION PLAN

All full-time employees of the Company participate in the County Employee Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit retirement plan administered by Kentucky Retirement Systems ("KRS"), an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The KRS issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by visiting their website at www.kyretcom.

Plan members are required to contribute 5% of creditable compensation if hired before September 1, 2008. Plan members hired on or after that date are required to contribute 6% of creditable compensation. For 2010, 2009 and 2008, participating employees contributed creditable compensation to CERS totaling $1,401,170, $1,420,491 and $1,350,982, respectively. The Company is required to contribute the remaining amounts necessary to pay benefits when due. The Company's actuarially determined contribution rate was 13.50% effective July 1, 2008, 16.16% effective July 1, 2009 and 16.93% effective July 1, 2010. Employer contribution rates are intended to fund the normal cost on a current basis plus an amount equal to the amortization of unfunded past service costs over thirty years. The Company contributed $4,641,238, $4,062,798 and $4,022,155 for 2010, 2009, and 2008, respectively. The Company's total payroll was $29,143,866, $29,818,531 and $29,133,096 for 2010, 2009 and 2008, respectively. CERS covered payroll was $27,884,476, $28,361,305 and $27,015,696 for 2010, 2009 and 2008, respectively.

NOTE 15
CONTINGENCIES AND COMMITMENTS

The Company retains certain insurable risks up to a fixed maximum per claim exposure. The risk is mitigated by maintaining a self-insured retention (S.I.R.) of $1,000,000 per occurrence for auto and general liability claims and lawsuits with excess liability insurance above the S.I.R. in two layers totaling $35,000,000. Claim and audits are managed in-house by Louisville Water staff. The Company is self-funded for workers' compensation claims with a specific (per occurrence) retention of $500,000, an estimated aggregate retention of $1,741,000 (approximately 200% of deposit premium based upon payroll estimates) and an aggregate limit of $3,000,000. Prior to October 1, 2008, the specific retention was $450,000 with statutory limits. Workers' compensation claims are managed by a third-party administrator with oversight by Louisville Water Risk Management. A reserve of $1,434,005 and $1,315,640 was established at December 31, 2010 and 2009, respectively, to provide for liability and workers' compensation claims incurred.

The Company is involved in litigation, which has arisen out of operations in the ordinary course of business. While it is not possible to forecast the outcome of this litigation, it is the opinion of the Company's management, based on evaluations by outside counsel, that it will not have a material adverse effect on the financial statements of the Company.

The value of construction contracts signed, where work has not yet been performed at December 31, 2010 and December 31, 2009 was $39,357,486.

NOTE 16
SUBSEQUENT EVENTS

On February 8, 2011, the Company Board of Water Works approved a resolution to provide a $10,000,000 promissory note to Louisville/Jefferson County Metro Government at a 2% annual interest rate. The promissory note is to be repaid over the next five years with a balloon payment in the fifth year. Louisville Metro has the option to refinance the remaining balance for one additional five year term.

SCHEDULE OF INVESTMENTS

December 31, 2010

		Maturity	Par	Amortized Cost / Fair Value
Bond Reserve Account – Series 2001				
U. S. Treasury Bonds	8.22%	11/15/13	$ 739,047	$ 739,047
U. S. Treasury State and Local Government Fund				
U. S. Treasury Bonds	8.22%	11/15/13	1,640,143	1,640,143
Depreciation Fund				
Sweep Account	0.51%		38,941,532	38,941,532
Certificate of deposit – CDARS	2.23%	06/17/12	3,037,726	3,037,726
Certificate of deposit – CDARS	2.23%	06/10/12	2,061,997	2,061,997
Bond Reserve Account – Series 2006				
First American Funds	0.00%		2,969,125	2,969,125
Bond Reserve Account – Series 2009A				
U. S. Treasury Bonds	8.22%	11/15/13	2,320,810	2,320,810
Fidelity Governmental Funds	0.00%		3,452,923	3,452,923
Bond Reserve Account – Series 2009B				
Fidelity Governmental Funds	0.06%		4,307,815	4,307,815
Infrastructure Replacement				
Sweep Account	4.51%		24,424,627	24,424,627
Federal Home Loan Bank Bonds	2.88%	03/11/11	4,000,000	4,019,412
Federal Home Loan Bank Bonds	3.75%	09/09/11	6,000,000	6,125,504
Federal Home Loan Bank Bonds	3.13%	06/10/11	6,735,000	6,811,191
Federal Home Loan Bank Bonds	0.80%	05/06/11	5,000,000	5,005,010
Federal Farm Credit Bank Bonds	0.75%	07/05/11	7,000,000	7,005,105
Federal Farm Credit Bank Bonds	0.35%	02/01/11	4,000,000	4,000,000
Federal Farm Credit Bank Bonds	3.50%	10/03/11	7,568,000	7,723,897
Federal National Mortgage Association Notes	5.38%	11/15/11	8,000,000	8,314,066
Federal Home Loan Mortgage Corp. Notes	2.75%	04/11/11	4,825,000	4,856,320
Federal National Mortgage Association Notes	3.63%	08/15/11	5,651,000	5,752,994

		Maturity	Par	Amortized Cost/ Fair Value
Bond Service Account – Series 2001				
First American Funds	0.00%		177,730	177,730
Bond Service Account – Series 2006				
First American Funds	0.00%		505,838	505,838
Bond Service Account – Series 2009A				
Fidelity Governmental Funds	0.06%		1,118,847	1,118,847
Bond Service Account – Series 2009B				
Fidelity Governmental Funds	0.06%		348,281	348,281
			$144,825,441	$145,659,940

SUMMARIZED SCHEDULE OF BOND ISSUES

December 31, 2010

2009A Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Mater Resolution Date	November 10, 2009
First supplemental resolution date	November 10, 2009
Original amount	$116,220,000
Interest rate	2.25% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2020

2009B Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Mater Resolution Date	November 10, 2009
Second supplemental resolution date	November 10, 2009
Original amount	$86,710,000
Interest rate	3.75% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2020

2006 Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master resolution date	July 14, 1992 (*as amended November 10, 2009*)
Third supplemental resolution date	May 25, 2006
Original Amount	$ 83,845,000
Interest rate	4.00% to 5.00%
Bonds Payable	November 15
Interest Payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2016

SUMMARIZED SCHEDULE OF BOND ISSUES (continued)

Sinking Fund installments for 2030 and 2031 maturity bonds:

	November 15, 2030		November 15, 2031	
	Year	Amount	Year	Amount
	2030	$ 5,225,000	2031	$ 5,470,000

2001 Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Mater Resolution Date	July 14, 1992 (*as amended November 10, 2009*)
Second supplemental resolution date	February 13, 2001
Original amount	$ 60,300,000
Interest rate	4.00% to 4.70%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2010

2000 Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Mater Resolution Date	July 14, 1992 (*as amended November 10, 2009*)
Second supplemental resolution date	August 8, 2000
Original amount	$ 78,500,000
Interest rate	5.00% to 5.50%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2010

SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS AND ANNUAL DEBT SERVICE REQUIREMENTS

December 31, 2010

Year ending December 31	2009A Bonds Principal Installments	2009A Bonds Interest	Aggregate Bond Service
2011	$ 6,270,000	$ 5,031,150	$ 11,301,150
2012	12,570,000	4,780,350	17,350,350
2013	12,720,000	4,497,525	17,217,525
2014	13,225,000	3,988,725	17,213,725
2015	14,935,000	3,327,475	18,262,475
2016	14,555,000	2,580,725	17,135,725
2017	3,760,000	1,852,975	5,612,975
2018	3,955,000	1,664,975	5,619,975
2019	4,170,000	1,467,225	5,637,225
2020	4,390,000	1,258,725	5,648,725
2021	4,580,000	1,083,125	5,663,125
2022	4,785,000	899,925	5,684,925
2023	5,000,000	708,525	5,708,525
2024	5,245,000	483,525	5,728,525
2025	5,500,000	247,500	5,747,500
	$ 115,660,000	$ 33,872,450	$ 149,532,450

Year ending December 31	2009B Bonds Principal Installments	2009B Bonds Interest	Aggregate Bond Service
2011	$ –	$ 4,151,305	$ 4,151,305
2012	–	4,151,305	4,151,305
2013	–	4,151,305	4,151,305
2014	–	4,151,305	4,151,305
2015	–	4,151,305	4,151,305
2016	–	4,151,305	4,151,305
2017	10,405,000	4,151,305	14,556,305
2018	9,515,000	3,761,118	13,276,118
2019	8,580,000	3,380,518	11,960,518
2020	7,665,000	2,985,838	10,650,838
2021	6,730,000	2,621,750	9,351,750
2022	5,790,000	2,293,663	8,083,663
2023	4,820,000	2,004,163	6,824,163
2024	3,835,000	1,763,163	5,598,163
2025	2,805,000	1,561,825	4,366,825
2026	7,960,000	1,414,563	9,374,563
2027	7,105,000	976,763	8,081,763
2028	6,215,000	603,750	6,818,750
2029	5,285,000	277,460	5,562,460
	$ 86,710,000	$ 52,703,709	$ 139,413,709

SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS AND ANNUAL DEBT SERVICE REQUIREMENTS (continued)

Year ending December 31	2006 Bonds		*Aggregate*
	Principal Installments	*Interest*	*Bond Service*
2011	$ 2,370,000	$ 3,700,056	$ 6,070,056
2012	2,460,000	3,605,256	6,065,256
2013	2,555,000	3,506,856	6,061,856
2014	2,655,000	3,404,656	6,059,656
2015	2,760,000	3,298,456	6,058,456
2016	2,870,000	3,160,456	6,030,456
2017	2,985,000	3,016,956	6,001,956
2018	3,110,000	2,867,706	5,977,706
2019	3,240,000	2,731,644	5,971,644
2020	3,375,000	2,585,844	5,960,844
2021	3,520,000	2,429,750	5,949,750
2022	3,675,000	2,253,750	5,928,750
2023	3,835,000	2,070,000	5,905,000
2024	4,000,000	1,878,250	5,878,250
2025	4,180,000	1,678,250	5,858,250
2026	4,365,000	1,469,250	5,834,250
2027	4,565,000	1,251,000	5,816,000
2028	4,770,000	1,022,750	5,792,750
2029	4,990,000	784,250	5,774,250
2030	5,225,000	534,750	5,759,750
2031	5,470,000	273,500	5,743,500
	$ 76,975,000	$ 47,523,386	$ 124,498,386

Year ending December 31	2001 Bonds		*Aggregate*
	Principal Installments	*Interest*	*Bond Service*
2011	$ 1,225,000	$ 239,520	$ 1,464,520
2012	1,280,000	184,395	1,464,395
2013	1,345,000	126,795	1,471,795
2014	1,410,000	66,270	1,476,270
	$ 5,260,000	$ 616,980	$ 5,876,980

Year ending December 31	ARRA Note Principal Installments	ARRA Note Interest	Aggregate Note Service
2011	$ –	$ 36,223	$ 36,223
2012	74,542	36,223	110,765
2013	76,032	34,733	110,765
2014	77,553	33,212	110,765
2015	79,104	31,661	110,765
2016	80,686	30,079	110,765
2017	82,300	28,465	110,765
2018	83,946	26,819	110,765
2019	85,625	25,140	110,765
2020	87,337	23,428	110,765
2021	89,084	21,681	110,765
2022	90,866	19,899	110,765
2023	92,683	18,082	110,765
2024	94,537	16,228	110,765
2025	96,428	14,337	110,765
2026	98,356	12,409	110,765
2027	100,323	10,442	110,765
2028	102,330	8,435	110,765
2029	104,376	6,389	110,765
2030	106,464	4,301	110,765
2031	108,597	2,168	110,765
	$1,811,169	$440,354	$2,251,523

SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES AND TAXES

Years ended December 31, 2010 and 2009

	2010	2009
Operation and maintenance expenses		
Pumping	$ 5,998,806	$ 5,551,139
Water treatment	9,770,912	9,043,623
Transmission and distribution	16,455,086	15,388,282
Customer accounts expenses	8,166,767	8,197,330
Administrative and general expenses	18,382,287	17,690,082
Operation expenses under applied	448,011	333,047
Total operation and maintenance expenses	$59,221,869	$56,203,503
Taxes		
Water and fire service in lieu of taxes	$13,186,811	$12,261,108
Social security taxes	2,009,914	2,042,878
State unemployment and miscellaneous taxes	21,079	3,385
Payroll taxes allocated	(2,009,914)	(2,042,878)
Total taxes	$13,207,890	$12,264,493

150 YEARS OF QUALITY

In 1860, Louisville Water Company began with 16 positions that included a president, chief engineer and assistants, hydrant inspector, oilman, a reservoir keeper and a night watchman.

On our 150th anniversary, 450 people work at Louisville Water in jobs that still include a few from 1860 but have expanded to include scientists, meter readers, customer care operators, computer technicians and more.

Our employees deliver exceptional quality and service every day. On this page, we recognize the employees who worked at Louisville Water in 2010.

FAbell.....WAdams.....VAdwell.....KAllen.....SAllen.....YAllen.....DAllgeier.....GAlvey.....LAmshoff.....LArcher.....CArmenta.....TAtwell.....DAustin.....EAyers.....JAzzara.....DBall.....KBall.....PBarker.....KBarnett.....LBasey.....JBates.....VBauscher.....KBeatty.....KBeckum.....JBerkley.....MBerry.....GBetts.....SBeyerle.....MBigham.....LBille.....YBillingslea.....KBlair.....CBlanton.....GBloom.....CBobay.....BBobbitt.....ABonds.....PBooher.....JBooher.....LBorneman.....BBradley.....JBrammell.....JBridges.....RBridges.....YBroadway.....JBrooks.....KBrooks.....JBrooks.....TBrough.....JBrown.....MBrown.....SBruce.....DBrumley.....SBrunton.....RBrutscher.....DBryant.....LBryant.....CBullitt.....BBurba.....TBurdette.....MBurmester......MButler.....RCalloway.....GCamp.....SCamp.....BCampbell.....TCampbell.....DCarr.....WCarruthers.....ACarter.....LCary.....ACavins.....RChandler.....CCheeks.....PChervenak.....EChestnut.....DChildress.....JChodyniecki.....AClark.....BClark.....CClark.....DClark.....TCobb.....SCockeril.....DCollier.....CCollins.....BCombs.....TConner.....CCook.....KCoombs.....HCooper.....SCorbin.....DCorder.....SCottongim.....JCovert.....MCox.....MCox.....SCox.....TCox.....CCrawford.....LCrayton.....JCurran.....MCushing.....TCushing.....DCzajka.....HDahman.....JDavidson.....MDavis.....MDeeley.....MDeignan.....BDickens.....CDietz.....SDistler.....TDonahue.....

Louisville Water employees circa 1880

LDooley.....SDougherty.....DDowell.....CDoyle.....DDrane.....GDukes.....MDurham.....MDurrett.....JEberle.....REiler.....DEisert.....RElam.....JElhafyani.....WEllison.....BElmore.....DEmbry.....LEstes.....NEstes.....TEvans.....OEverett.....SEwing.....BFarmer.....KFarrow.....CFautz.....JFord.....KForster.....SFoster.....NFrederick.....BFreeman.....EFritz.....SFuchs.....MFurlong.....HGarcia-Reichert.....DGathof.....GGibbs.....TGilbert.....RGillon.....BGimbel.....KGlenn.....DGnau.....DGnau.....WGoins.....CGoodloe.....VGoodner.....SGrant.....AGregory.....RGriggs.....JGrunow.....JGuenthner.....SGully.....THainline.....DHall.....AHalloran.....MHarlan.....MHarpe.....CHarper.....DHarrett.....BHarris.....DHarris.....DHarshfield.....MHarshfield.....WHartlage.....BHayes.....CHayes.....KHazel.....GHeitzman.....AHenderson.....PHenry.....MHerbig.....JHettich.....DHettinger.....AHewitt.....BHicks.....LHigdon.....WHill.....HHobbs.....AHolguin.....THollkamp.....JHood.....LHood.....DHorine.....LHornek.....JHorrell.....DHoulette.....GHoward.....JHoward.....LHoward.....MHoward.....WHume.....SHumphrey.....HHunt.....JHutchinson.....LHynes.....SIgwe.....VIlari.....MIsgrigg.....DJared.....MJared.....GJeffries.....NJenkins.....CJohnson.....TJohnson.....WJohnson.....DJohnston.....PKaelin.....KKastensmidt.....RKennedy.....WKimbel.....WKing.....LKirk.....RKitts.....TLambert.....ALampe.....RLancaster.....TLangford.....DLawson.....RLeMaster.....FLeupp.....RLewis.....KLikens.....TLikens.....JLile.....JLinville.....DLivingston.....CLogsdon.....JLong.....LLorimor.....JLueke.....CLyons.....SMacGeorge.....DMackell.....EMackin.....SMackin.....KMahaffey.....WMalone.....CMartin.....LMartin.....MMartin.....RMartis.....GMason.....BMatherly.....BMatherly.....EMcAnelly.....BMcBride.....EMcCarty.....KMcCauley.....TMcCauley.....MMcClanahan.....RMcCord.....JMcGarry.....JMcGee.....JMcGinty.....EMcGiveney.....JMcGuire.....JMcGuire.....JMcHatton.....DMcKay.....RMcLemore.....CMcMullen.....JMcMullen.....NMcMullen.....WMedley.....BMeeks.....CMeeks.....KMentel.....KMeriwether.....TMetcalf.....MMeyer.....MMeyer.....TMeyer.....RMiddleton.....MMiller.....TMiller.....TMills.....BMingus.....RMingus.....MMitchell.....TMok.....VMonks.....EMoore.....CMoore.....DMorrow.....TMowman.....GMudd.....BMullen.....SNalley.....CNally.....JNett.....ANeuner.....CNewman.....BNewton.....JNicheols.....ANorris.....VNorris.....LOgburn.....EO'Mara.....ROsborn.....MOttens-Settles.....JPalin.....VPasley.....LPence.....WPerry.....WPerry.....DPeterson.....JPeyton.....APhipps.....KPierce.....PPierce.....TPiercy.....GPike.....RPotts.....EPruitt.....SPurdy.....APurvis.....APyle.....WQin.....TQueen.....MQuinn.....DQuinones.....LRaley.....DRandall.....ARalston.....JRalston.....CRay.....TReddington.....JRedmon.....GReed.....HReed.....KReed.....NReed.....RReichert.....MReid.....LReid.....JReitz.....PReyes.....DReynolds.....TReynolds.....JRice.....WRigdon.....JRisinger.....BRobertson.....CRobinson.....KRobinson.....ERoederer.....LRountree.....GRyan.....MRyan.....DSamuels.....JSanders.....MSanders.....MSauer.....ASchaftlein.....DSchenkenfelder.....ESchmidt.....KSchroeder.....CScott.....SSeetharam.....TSettles.....SShaw.....CSherer.....JSherer.....DSimmons.....LSlater.....LSlovacek.....JSmallwood.....JSmith.....KSmith.....LSmith.....LSmith.....NSmith.....RSmith.....SSmith.....ASmyzer.....CSnider.....BSoice.....RSong.....SSpalding.....MSpencer.....PStallings.....EStarnes.....MStepp.....JStone.....SStrulson.....BSturgeon.....KSturgeon.....MSullivan.....VSunkara.....MSweat.....ASweazy.....CSwitzer.....TTaylor.....DTegene.....ITemple.....STennyson.....AThacker.....GThielmeier.....AThomas.....TTichenor.....FTimaji.....BTivitt.....VToney.....JTopp.....JTruax.....RTucker.....STyner.....AVanAvery.....TVance.....JVanhowe.....CVaughn.....SVegaVelez.....CVincent.....DVogel.....RWade.....JWalker.....SWalker.....LWallace.....MWallace.....EWalls.....GWalsh.....JWalton.....JWang.....LWarren.....LWashburn.....JWatkins.....CWeikert.....WWesley.....AWhite.....RWhite.....WWhitehouse.....AWhiting.....CWhitsett.....AWilliams.....HWilliams.....LWilliams.....EWilson.....FWinchell.....NWohlleb.....AWoodard..... SWorthington.....CWyatt..... KYadav.....WYates.....XZhu.....JZiegler.....JZimmer

Employees and their families on the 150th anniversary

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LOUISVILLE WATER since 1854